



# **Energa SA's Management Board Report on the activities of the Energa Capital Group and Energa SA in 2020**

Gdańsk, 13 April 2021

**Table of contents**

<b>1. SUMMARY</b>	<b>3</b>
<b>2. KEY INFORMATION ON THE ENERGA GROUP</b>	<b>6</b>
2.1. Description of activities of the Group	6
2.2. Group's structure and governance model	7
2.3. Key events in 2020 and after the balance sheet date	11
2.4. Innovative activities	17
2.5. Capital expenditure	19
2.6. Strategy and directions of development of the Energa Group	20
2.7. Awards and distinctions	24
2.8. Social responsibility and ESG with a statement about non-financial information	24
<b>3. REGULATORY AND BUSINESS ENVIRONMENT</b>	<b>29</b>
3.1. Macroeconomic situation	29
3.2. Electricity market in Poland	31
3.3. Regulatory environment	37
3.4. Description of the Group's position in relation to other energy groups	40
3.5. Factors relevant to the development of the Energa Group	41
<b>4. FINANCIAL AND ASSETS SITUATION OF the ENERGA GROUP</b>	<b>43</b>
4.1. Rules of preparing the annual consolidated financial statements	43
4.2. Explanation of the economic and financial data disclosed in the annual consolidated financial statements	43
4.3. Structure of assets and liabilities in the consolidated statement of financial position	49
4.4. Description of significant off-balance sheet items	50
4.5. Projected financial results	50
<b>5. OPERATIONS OF THE ENERGA GROUP SEGMENTS</b>	<b>52</b>
5.1. Distribution Business Line	52
5.2. Generation Business Line	55
5.3. Sales Business Line	63
<b>6. FINANCIAL AND assets SITUATION OF ENERGA SA</b>	<b>69</b>
6.1. Rules of preparing the standalone consolidated financial statements	69
6.2. Explanation of the economic and financial data disclosed in the annual standalone financial statements	69
6.3. Structure of assets and liabilities in the standalone statement of financial position	73
6.4. Description of significant off-balance sheet items	73
<b>7. RISK MANAGEMENT</b>	<b>75</b>
7.1. Integrated Risk Management System of the Energa Group	75
7.2. Description of major factors and risks	77
<b>8. SHARES AND SHAREHOLDING STRUCTURE</b>	<b>83</b>
8.1. Energa's shareholding structure	83
8.2. The Company's stock prices on the Warsaw Stock Exchange	84
8.3. Investor relations at Energa	85
8.4. Recommendations for the Company's stock	86
8.5. Ratings	86
8.6. Dividend	86
<b>9. OTHER INFORMATION ABOUT THE GROUP</b>	<b>88</b>
9.1. Information on material contracts, agreements and transactions	88
9.2. Proceedings pending before courts, arbitration or public administration bodies	92
9.3. HR and payroll situation	98
9.4. Information on the statutory audit firm	103
<b>10. CORPORATE GOVERNANCE STATEMENT</b>	<b>105</b>
10.1. Application of rules of Corporate Governance	105
10.2. Significant shareholders	105
10.3. Holders of stock with special control rights and a description of special control rights	105
10.4. Restrictions on voting rights	106
10.5. Restrictions on transfer of ownership of securities	106
10.6. Amendments to the Articles of Association	106
10.7. Corporate bodies	106
10.8. Salaries of executive and supervisory staff	120
10.9. Diversity policy	123
10.10. Main features of internal control and risk management systems in relation to the financial reporting process	123
<b>11. MANAGEMENT BOARD REPRESENTATION AND INFORMATION</b>	<b>126</b>
List of tables	127
List of figures	128

## 1. SUMMARY

### THE ENERGA GROUP IN 2020



One of the leading energy groups and a reliable supplier of electricity and services for 1/4 of Poland, with a 45% share of RES in own production.

#### Financial results

Revenues	EBITDA	EBITDA margin
PLN 12,553 m	PLN 2,038 m	16.2%

#### Renewable energy sources

Installed capacity	RES production	
532 MWe	1,434 GWh	<p>Wind 46% Run-of-the-river plants 38% Biomass 15% PV 1%</p>




#### Operating data

Volume of electricity supplied	Gross electricity production	Retail sales
<p>21.8 TWh</p>	<p>3.2 TWh</p>	<p>18.8 TWh</p>



#### Investor's guide\*

Capitalization	Share price	Fitch rating of Energa
PLN 3.3 billion	PLN 7.88	BBB-

\* At the end of 2020

Key resources		
Distribution grid	Installed capacity	Number of employees
191 k km 	1.38 GWe of which 39% are RES 	9.7 k 



Key Business Lines		
Distribution	Generation	Sales
		
EBITDA: PLN 1,790 m	EBITDA: PLN 165 m	EBITDA: PLN 156 m

Investments			
PLN 1,721 m	New customer connections	Modernization of HV, MV and LV lines	New RES
Of which Distribution: PLN 1,350 m	63 k	2,935 km	760 MW



Żelkowo hydro plant

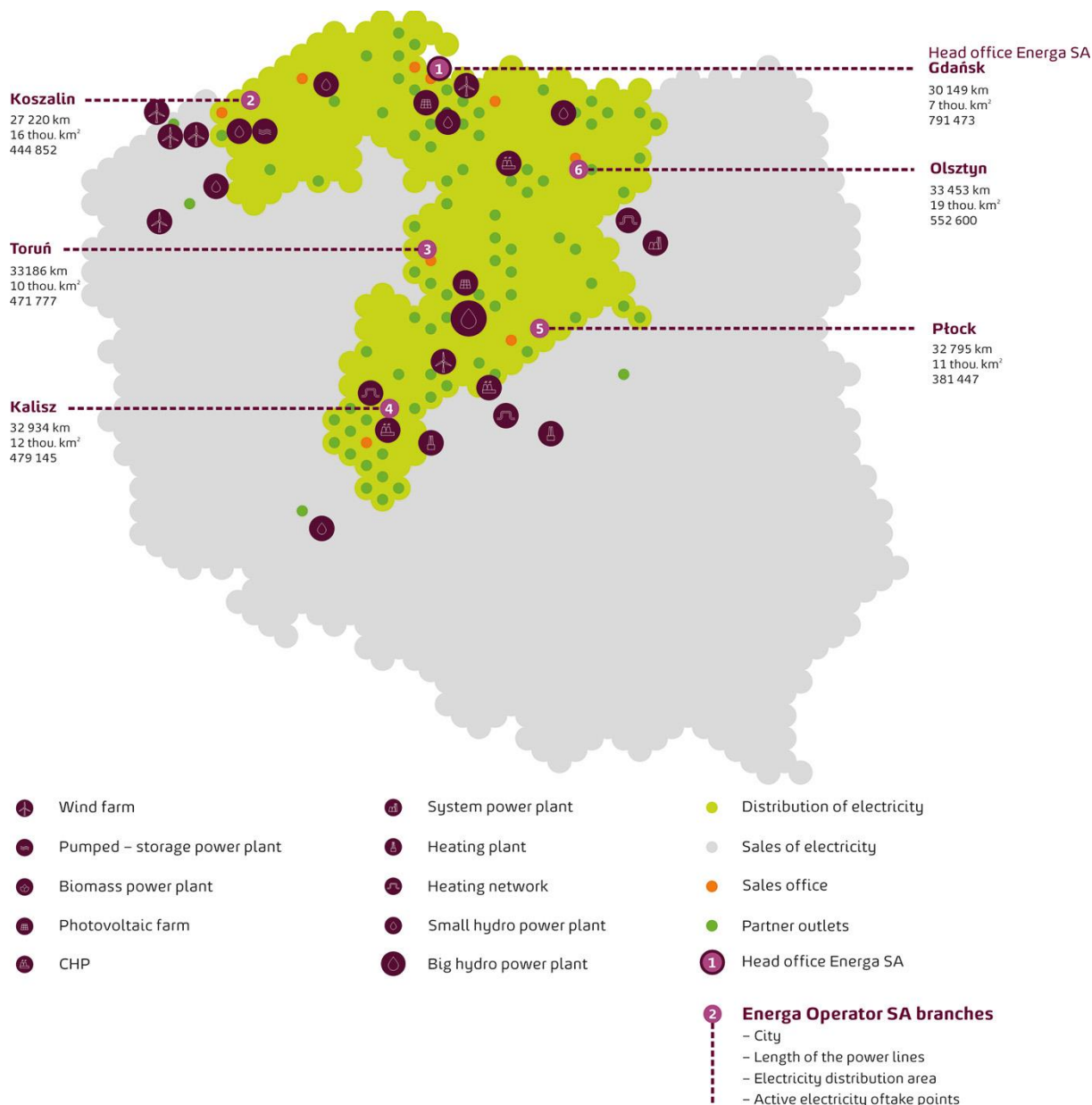
## Key information on the Energa Group



## 2. KEY INFORMATION ON THE ENERGA GROUP

### 2.1. Description of activities of the Group

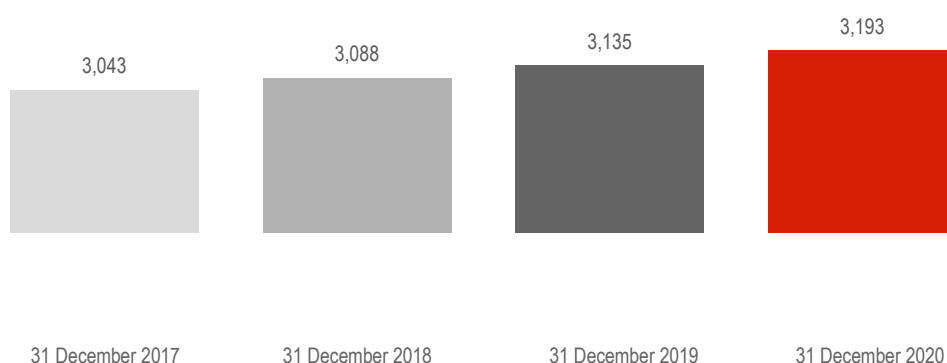
Figure 1: Business locations and main assets of the Group



The core business of the Energa Group involves the distribution, generation and trading in electricity and heat and concentrates on the following business lines:

**Distribution Business Line.** This is the Business Line of key importance to the Group's profitability, involved in the distribution of electricity (which is a regulated activity in Poland) conducted on the basis of tariffs approved by the President of the Energy Regulatory Office (URE). Energa Operator SA acts as the leading entity in this Line. The Energa Group has a natural monopoly position in the northern and central part of Poland which hosts the Group's distribution assets through which the Group supplies electricity to 3.2 million customers, approx. 3.0 million of whom are customers with universal agreements and 178,000 are TPA (Third Party Access) customers. At the end of 2020, the total length of the power lines used by the Group was over 191 thousand km and covered almost 75 thousand km², i.e. about 24% of the country's landmass.

Figure 2: Number of Energa Operator SA customers as at 31 December 2017-2020 (000s)



**Generation Business Line.** The operation of this business line is based on four Generation Areas: the Ostrołęka Power Plant, Hydro, Wind and Other (including cogeneration – CHP). At the end of 2020, the total installed generation capacity in the Group's power plants was approximately 1.4 GW. The leading entity in this Business Line is Energa OZE SA.

In 2020 the Group generated 3.2 TWh of gross electricity, relying on a mix of sources such as coal, water, wind, biomass, and photovoltaic energy. In the entire 2020, 53% of the Group's gross electricity production originated from coal, 25% from hydro, 15% from wind, with biomass accounting for 6% of production.

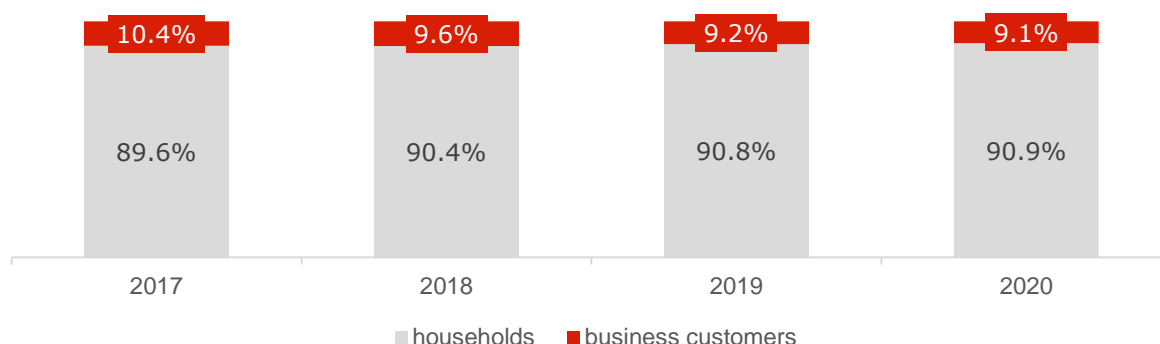
The Energa Group owes its strong position in terms of the percentage of renewable electricity in the total energy mix primarily to the generation of energy in hydro- and wind power plants. Green energy is produced by 46 hydro power plants, 6 wind farms and biomass-fired installations (in Energa Elektrownie Ostrołęka and Energa Kogeneracja) as well as two photovoltaic installations.

As at the end of 2020, the Group had 0.5 GW of renewable capacity, with a gross production of electricity totalling 1.4 TWh throughout the entire 2020.

Coal is the main fuel used by the Energa Group to produce electricity and heat. The Group's generating units used 826 thousand tonnes of coal and 147 thousand tonnes of biomass in 2020 (vs. 1,059 thousand tonnes and 148 thousand tonnes, respectively, in 2019). Coal supplies were delivered to the Group by three main Polish suppliers: Polska Grupa Górnicza, Lubelski Węgiel "Bogdanka", and Jastrzębska Spółka Węglowa.

**Sales Business Line.** Its lead entity is Energa Obrót SA. It sells electricity, gas and additional services both as separate products and in bundles to all customer segments – from industry through large, medium and small enterprises, to households. As at the end of 2020, the Energa Group had approximately 3.1 million customers, including 2.8 million classified as G tariff customers, with the remainder being customers from: C, B and A, in a decreasing order.

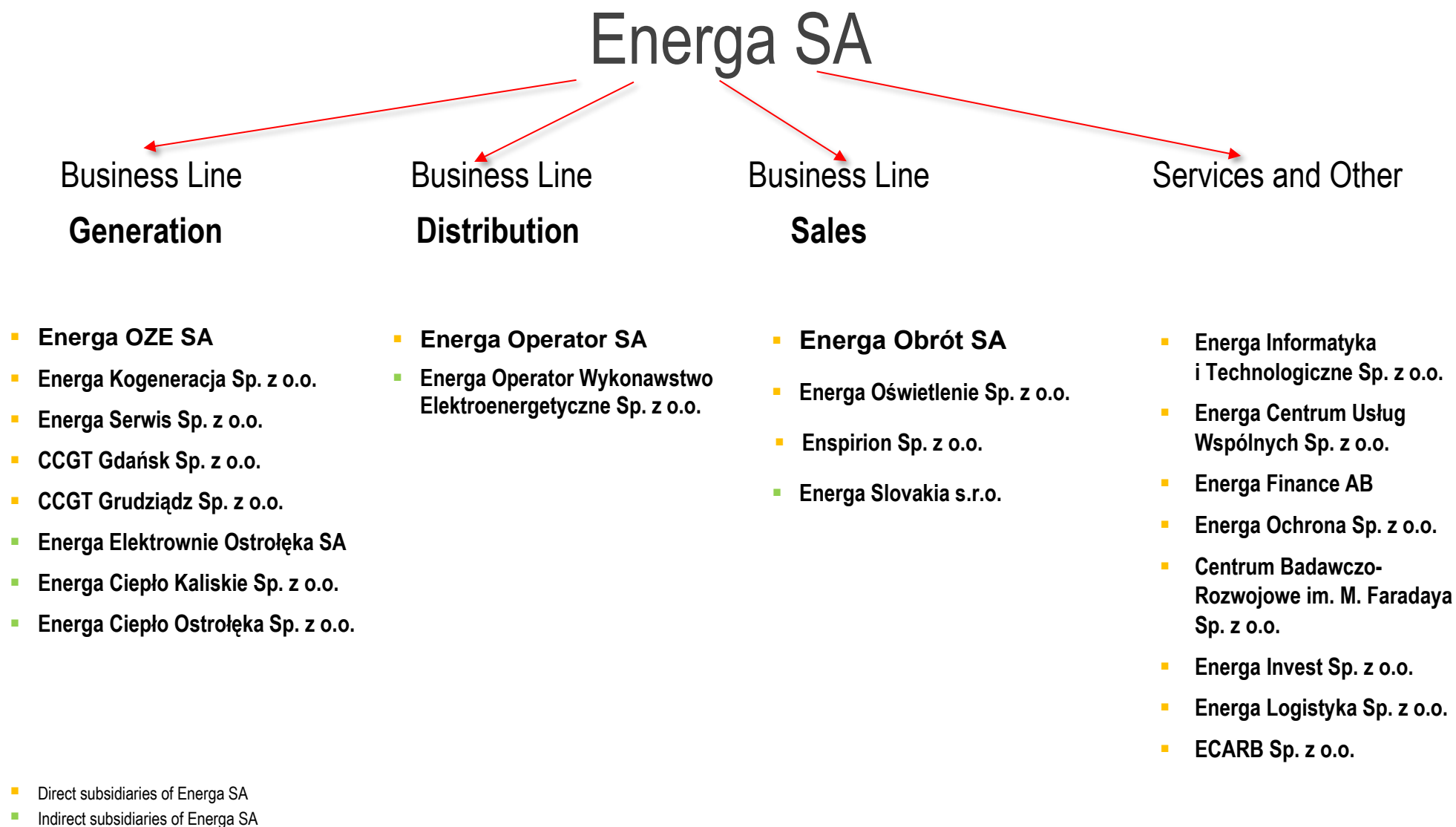
Figure 3: Structure of Energa Obrót's end customers by customer type



## 2.2. Group's structure and governance model

As at 31 December 2020, the Group consisted of Energa SA and the following 22 subsidiaries:

Figure 4: Simplified organisational chart of the Energa Group as at 31 December 2020





As at 31 December 2020 the Group held shares in joint ventures: Polska Grupa Górnicza SA ("PGG"), Elektrownia Ostrołęka Sp. z o.o. (formerly Elektrownia Ostrołęka SA; "Elektrownia Ostrołęka") and in associates Polimex-Mostostal S.A. ("Polimex") and ElectroMobility Poland SA.

### **Key changes in the Group's structure and organisation**

On 30 April 2020 PKN ORLEN S.A. ("PKN ORLEN"), following settlement of the shares purchase transactions, under subscriptions placed in response to the tender offer to subscribe for the sale of all shares issued by Energa which was announced in December 2019, increased its share in the share capital of the Company and the total number of votes in the Company respectively to 80.01% and 85.20% and became the parent entity of the Company. On 30 November 2020 PKN ORLEN, following settlement of the shares purchase transactions, under subscriptions placed in response to the tender offer of 21 September 2020 to subscribe for the sale of shares of the Company, increased its share in the share capital of the Company and in the total number of votes in the Company to 90.92% and 93.28% respectively.

#### **Energa Ciepło Ostrołęka**

On 24 March 2020 Energa Elektrownie Ostrołęka signed a share purchase agreement for the shares of Energa Ciepło Ostrołęka from Energa Kogeneracja. The transaction was worth PLN 37 million.

#### **Energa Serwis**

On 28 April 2020 Energa Elektrownie Ostrołęka signed a share purchase agreement for the purchase of 4,000 shares in Energa Serwis sp. z o.o. from Energa SA. The total nominal value of shares was PLN 2 million, which accounted for 14.08% of the share capital of the company.

#### **ECARB**

The Company was registered in the National Court Register on 4 May 2020. The main subject of actual activities are other financing services, supporting the block of shares of Polska Grupa Górnicza S.A. in terms of preparing the strategy and analyses necessary to perform activities and exercise rights and obligations arising out of holding of PGG shares.

On 11 May 2020 Energa OZE signed a share purchase agreement for the purchase of 1,275 shares in ECARB sp. z o.o. from Energa SA. The total nominal value of shares was PLN 63,700, which accounted for 35.40% of the share capital of the company.

### **The Group Governance Model**

The Energa Group Cooperation Agreement, signed on 20 December 2017 by 31 the Energa Group companies (as at the date of this report, 20 companies remain parties to the agreement as a result of corporate restructuring within the Energa Group) is the basic document of the Energa Group defining the general principles of its governance.

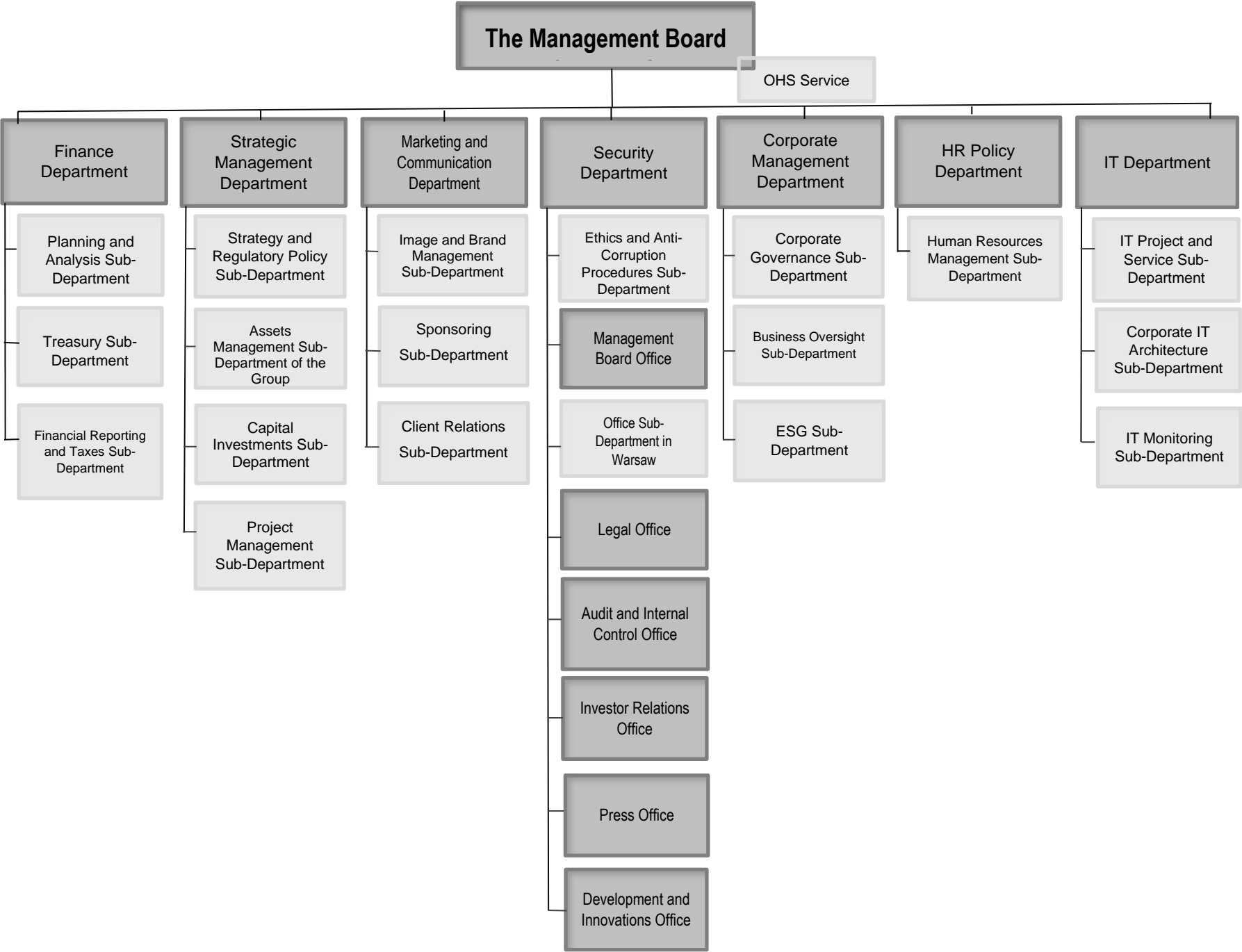
The Energa Group Cooperation Agreement is a civil-law instrument which:

- ensures cooperation between the Energa Group companies and guarantees effective performance of the Group,
- reflects the need to ensure, to the extent required by law, the independence of the distribution system operator within the Energa Group,
- forms the basis for the development of long-term cooperation across all Energa Group companies,
- reflects the necessity to have a uniform and consistent operating policy for all Energa Group companies in place.

The Energa Group Cooperation Agreement takes into consideration the need to define the rights and obligations of Energa as the Energa Group's Parent Company with respect to setting of objectives, business strategies, as well as control and oversight of Subsidiaries, which became the foundation for the provisions of the agreement. As at the date of signing, the Agreement had 32 appendices, which were regulations (procedures) setting forth the operating principles of the Group in every area. As at the end of 2020, the Agreement included 36 regulations in force.

The Organisational Regulations of Energa SA together with the company's organisational chart define the principles of operation of Energa SA. The document regulates such areas as the Company's governance, organisational structure as well as obligations and responsibilities of individual units. The chart below illustrates the structure of Energa SA up to the level of organisational units reporting directly to the members of the Management Board, as at 31 December 2020.

Figure 5: Organisational chart of Energa as at 31 December 2020



As a result of the purchase of Energa shares representing over 80% of share capital of Energa by PKN ORLEN in April 2020, the Company with all of its subsidiaries became a subsidiary of PKN ORLEN.

As a consequence, in 2020 Energa SA, as a parent company of the Energa Group, which is comprised of Energa SA, its subsidiaries and co-subsidiaries, also operated on the basis of integration solutions designed to implement the policy of the ORLEN Group, and for this purpose it concluded:

1. An Agreement on group integration of 22 May 2020 and
2. A "holding" Agreement of 29 October 2020.

Provisions of the concluded Agreements in 2020 defined the rules of co-operation between the Parties, i.e. PKN ORLEN and Energa SA as well as the Energa Group companies in the field of co-ordination, optimisation and partial centralisation of activities. Rules and scope of co-operation were defined to:

- build the value,
- pursue the interest and objectives of the Group,
- integrate the activities of the Group,
- develop a single decision-making model for the Group,
- keep the division of tasks and responsibilities between the Parties, as the parent company (PKN ORLEN) and subsidiary (Energa as a parent company in the Energa Group),
- ensure the availability and exchange of information between the Parties.

The Agreement of 29 October 2020 establishes foundations for the centralization of organisational, planning and analytical processes which contribute to the development of the Group and decision-making rules for the Energa Group companies, by defining collaboration in the areas such as:

- Segment Management and Operational Supervision,
- Implementation of organisational policies and standards,
- Corporate governance,
- Financial reporting.

## **2.3. Key events in 2020 and after the balance sheet date**

### **Material events in the reporting period**

#### **Results of tender offers to subscribe for the sale of shares of Energa SA announced by PKN ORLEN**

On 28 January 2020, the Management Board of Energa adopted, pursuant to Article 80 of the Act of 29 July 2005 on Public Offering and the Terms of Introduction of Financial Instruments to an Organized Trading System and on Public Companies, a position regarding the tender offer to subscribe for the sale of all shares in the Company announced by PKN ORLEN in December 2019. In this position, the Management Board concluded that the share price proposed in the said tender offer fell within the estimated fair value range of the Company's shares. Energa's Management Board adopted its position on the basis of the opinion issued by Deloitte Advisory sp. z o.o. limited partnership and information from the tender offer.

Subscriptions for the shares mentioned in the tender offer began on 31 January 2020 and were originally scheduled to end on 9 April 2020, but were extended until 22 April 2020.

On 31 March 2020 the European Commission issued an unconditional decision concerning the consent to a concentration consisting in taking control over Energa.

On 15 April 2020 the Management Board of PKN ORLEN decided to increase the price in the tender offer from PLN 7 to PLN 8.35 per share. Increased share price in the tender offer was paid for all subscribed shares of the Company during the term of the tender offer, from 31 January 2020 to 22 April 2020.

On 22 April 2020, the Extraordinary General Meeting of Energa amended the Articles of Association of the Company to remove the statutory restrictions on voting rights referred to in Article 27(1) to (7) of the Articles of Association.

On 29 April 2020 the Management Board of Energa SA was notified by PKN ORLEN of the change in PKN ORLEN's stake in the share capital of the Company and in the total number of votes in the Company, which meant that on 24 April 2020 PKN ORLEN, following settlement of the share purchase transactions for the subscribed shares during the first 70 days of subscriptions (i.e. until 9 April 2020 inclusive) in response to the tender offer, increased its stake in the share capital of the Company and in the total number of votes in the Company to approx. 8.1% and approx. 6.0% respectively.

On 30 April the Management Board of Energa was again notified by PKN ORLEN of the change in PKN ORLEN's stake in the share capital of the Company and in the total number of votes in the Company, which meant that on 30 April 2020 PKN ORLEN, following settlement of the share purchase transactions for the subscribed shares in the period from 10 April 2020 to 22 April 2020 inclusive in response to the tender offer, increased its stake in the share capital of the Company and in the total number of votes in the Company to approx. 80.01% and 85.20% respectively. At the same time the Company was notified by PKN ORLEN that the parent relationship between PKN ORLEN and the Company was created as a result of settlement of all transactions of purchase of shares subscribed in response to the tender offer.

On 21 September 2020, PKN ORLEN announced a tender offer (the so-called delisting tender offer) to subscribe for the sale of shares issued by Energa for all remaining shareholders of Energa. The delisting tender offer was announced in accordance with Article 91 section 5 of the Act of 29 July 2005 on Public Offering and the Terms of Introduction of Financial Instruments to an Organized Trading System and on Public Companies.

The subject of the delisting tender offer were the Company's AA series 82,754,032 dematerialized ordinary bearer shares with the nominal value of PLN 10.92 each, where one AA series share carries one vote at Energa's general meeting, carrying a total of up to 82,754,032 votes at Energa's general meeting, admitted and introduced to trading in a regulated market operated by the Warsaw Stock Exchange. The delisting tender offer was announced subject to adoption by Energa's general meeting of the resolution on withdrawal of the Company's shares from trading (delisting). On 29 October 2020, the Extraordinary General Meeting of the Company adopted a resolution to withdraw Energa SA's shares from trading. Subscriptions for the shares began on 9 October 2020 and ended on 20 November 2020. Following settlement of the transactions of purchase of shares taken up in response to the delisting tender offer, on 30 November 2020 PKN ORLEN increased its share in the share capital of the Company and in the total number of votes in the Company to 90.92% and 93.28% respectively.

### **Decision of the Extraordinary General Meeting to withdraw Energa SA's shares from trading on the regulated market**

On 29 October 2020, the Extraordinary General Meeting of Energa SA adopted a resolution to withdraw 269,139,114 ordinary bearer shares of AA series of the Company's shares denoted with code ISIN PLENERG00022 in Krajowy Depozyt Papierów Wartościowych S.A. ("Shares") from trading on the regulated market operated by the Warsaw Stock Exchange (WSE).

At the same time, the Extraordinary General Meeting authorized and obliged the Management Board of the Company to take all the legal and factual steps necessary to withdraw the Shares from trading on the regulated market operated by the WSE.

As a result, on 30 October 2020 the Company filed an application with the Polish Financial Supervision Authority for withdrawal of the Shares from trading on the regulated market operated by the WSE.

### **Actions related to Ostrołęka C Project**

On 13 February 2020 Energa SA and Enea S.A. decided to suspend the financing for the project of construction of a new coal-fired unit, i.e. the planned Ostrołęka C power plant in Ostrołęka with a capacity of approx. 1,000 MW ("Coal Project") – implemented by a special purpose vehicle, Elektrownia Ostrołęka sp. z o.o. ("SPV"). The financing was suspended in particular in connection with the need and for the duration of conducting analyses regarding further Coal Project activities, including its continued financing.

On 19 May 2020, the Management Board of Energa learned from SPV that impairment losses were made for the value of non-current assets of that company in the total amount of PLN 1,027 million. Elektrownia Ostrołęka said that the impairment losses resulted from the impairment test of fixed assets in connection with update of business assumption of the project based on coal technology. The inclusion of the share in the loss of the company accounted for with the equity method in the consolidated financial statements of the Energa Group resulted in a reduction in the value of the investment in the company to PLN 0. At the same time, it was a premise for a complete write-down of the value of shares in the company in the standalone financial statements of Energa. The effect of the aforesaid impairment loss on the consolidated net result of the Energa Group for 2019 was PLN -443 million, and the effect on the standalone net result of Energa SA for 2019 was PLN -453 million. In both cases it was a non-cash event that deteriorated the net result without impacting the EBITDA.

On 19 May 2020 the Management Board of Energa received a declaration from PKN ORLEN on preliminary readiness for direct financial involvement in this investment. The declaration was a response to Energa's request sent to PKN ORLEN and was made only under the proviso that process assumptions for the investment in gas fuel technology would be amended, which was one of the scenarios considered as part of the analysis. In addition, PKN ORLEN declared its readiness to talk to SPV shareholders, i.e. Energa and Enea, as to the form, scope and method of such an involvement.

On 2 June 2020, the Management Board of Energa SA approved the final report from the analyses. The conclusions from the analyses did not support any continuation of the project in its existing form, i.e. as a hard coal-fired power plant. Furthermore, the technical analysis confirmed that a power plant producing energy as part of natural gas combustion ("Gas Project") may be built in the existing location of the coal-fired power plant being built. As a consequence, the Company's Management Board declared its intention to continue the construction of a generating unit in Ostrołęka while changing the fuel source from coal to gas. On 2 June, Energa SA, Enea S.A. and PKN ORLEN entered into a trilateral agreement setting out the key terms of cooperation under the Gas Project. Additional information is provided in Current Report No. 51/2020.

On 22 December 2020 Energa, Enea S.A. and the SPV signed an agreement on co-operation during SPV division ("Division Agreement"), under which the division of the SPV would be made by separating (within the meaning of the Commercial Companies Code) the assets and liabilities (rights and obligations) and other elements which are part of the Gas Project. The separation of the Gas Project will be made into an acquiring company, designated by the Company and being its subsidiary. Completion of the SPV division is scheduled for Q2 2021. On the same day, the Company and Enea S.A. entered into the agreement of co-operation on the settlement of the Coal Project ("Settlement Agreement"). The Settlement Agreement has been concluded as necessary to implement the provisions of the Division Agreement requiring the cooperation of SPV shareholders, including the necessary settlement of costs associated with the Coal Project. The Settlement Agreement expects that the costs associated with the Coal Project will be settled proportionately by the parties to this agreement in accordance with the existing rules and within the limits adopted in the agreement concluded between the Company and Enea S.A. on 30 April 2019, as reported by the Company in Current Report No 7/2019 of 30 April 2019.

On 22 December 2020 Energa and PKN ORLEN and Polskie Górnictwo Naftowe i Gazownictwo S.A. ("PGNiG") ("Parties") signed an investment agreement for directional rules of co-operation in connection with construction of the gas-fired power unit at Ostrołęka C Power Plant. The Parties committed to co-operate on the implementation of the Gas Project by establishing a new company that would take over selected assets and liabilities from the SPV that are necessary for the implementation of the Gas Project. The Parties agreed in the investment agreement that Energa and PKN ORLEN would receive a total of 51% shares in the share capital of the newly established company, which is the same per cent of the total number of votes at its meeting of shareholders and that PGNiG would take the remaining 49% of shares in the share capital of the newly established company, which is the same per cent of the total number of votes at the meeting of shareholders. Shares in the newly established company will not be privileged in any way, and the shareholders' participation rights will be exercised in accordance with the principles set out in the provisions of the Commercial Companies Code. The Parties assume that all premises necessary to establish the new company will have been fulfilled and the consent of the competent anti-trust authority will have been obtained by 30 June 2021. In addition, PGNiG will be able to enter the new company after the due diligence process is completed for the Gas Project and consents from PGNiG corporate authorities are obtained.

### **Decision to launch a review process of available strategic options concerning combined cycle gas turbine projects (CCGT) located in Gdańsk and Grudziądz**

On 27 February 2020, the Management Board of Energa passed a resolution concerning the launch of the procedure leading to a review of available strategic options, including conduct of in-depth market reconnaissance and making enquiries with external entities to determine their interest in a potential strategic partnership or purchase of the Company's special-purpose vehicles carrying out the projects consisting in construction of combined cycle gas turbines (CCGT) located in Gdańsk and Grudziądz, namely CCGT Gdańsk sp. z o.o. and CCGT Grudziądz sp. z o.o.

### **Polska Grupa Górnicza**

As at 30 June 2020, based on a valuation prepared by an external advisor using the discounted dividends method, the Energa Group, exercising joint control over PGG, identified the need for recognizing an impairment loss on that investment. The fair value of the shares was determined as nil. Consequently, an impairment loss was recognized for the entire value of the investment in the PGG joint venture, accounted for in the consolidated financial statements using the equity method. An impairment losses of PLN 145 m was recognized for the investment. As at 31 December 2020, the value of the investment as shown in the consolidated financial statements is nil.

## **Coverage of net loss for 2019**

On 28 May 2020 the Management Board of Energa decided to recommend to the General Meeting of Energa SA to cover the net loss of the Company for the financial year 2019 at PLN 374 million from the supplementary capital.

On 1 June 2020 the Supervisory Board of the Company passed a positive opinion on the recommendation of the Management Board of the Company on coverage of the net loss of the Company for 2019. The recommendation of the Management Board together with the opinion of the Supervisory Board was submitted to the General Meeting which, on 29 June 2020, decided to cover the loss in its entirety from the supplementary capital of the Company.

## **Fitch Ratings downgrades Energa SA's rating**

On 29 May 2020, Fitch Ratings agency downgraded long-term foreign- and local-currency Issuer Default Ratings (IDRs) for the Company from BBB to BBB- with a Stable Outlook, the rating for the bonds issued by the Company's subsidiary Energa Finance AB (publ) down to a BBB-, and the rating for Energa SA's hybrid bonds down to BB.

The agency justifies the downgrade primarily by the Company's takeover by PKN ORLEN SA on 30 April 2020 (for more information, see chapter 8.5. *Ratings*).

## **Impairment losses and establishment of a provision**

In Q2 2020 the value of shares was measured and impairment tests of fixed assets were conducted. As a result of the tests and measurements, the following was found to be necessary:

- impairment losses on generation assets of subsidiary Energa Elektrownie Ostrołęka SA - in the amount of PLN 473 m,
- mentioned above an impairment loss on the value of the investment in PGG - in the amount of PLN 145 m,
- impairment losses on the value of shares in Energa Kogeneracja Sp. z o.o. - in the amount of PLN 79 m,
- impairment losses on the value of shares in ENERGA AB Finance (publ) - in the amount of PLN 84 m.

At the same time, in connection with the decision to change the source of coal to gas power supply for the Ostrołęka C power plant project ("Project") as performed by Elektrownia Ostrołęka Sp. z o.o., the Company identified the need to create:

- a provision in the amount of PLN 218 m, which reflected possible estimated amounts of Elektrownia Ostrołęka Sp. z o.o. funding for the settlement of the Project implementation to date,
- an impairment loss on the value of loans, including interest, granted to Elektrownia Ostrołęka Sp. z o.o. - in the amount of PLN 185 m.

In Q3 2020, as a result of a valuation of the block of shares in Polimex-Mostostal S.A. held by the Group, an impairment of these shares was identified and impairment loss of PLN 38 m was recognized.

The above events were of a non-cash nature. They decreased the net results of Energa Group and Energa SA for 2020 without affecting the EBITDA.

## **Signing of a letter of intent among Energa SA, PKN ORLEN S.A. and Grupa LOTOS S.A. concerning analysis of the prospects for carrying out a joint investment project**

On 2 November 2020 the Company and PKN ORLEN and Grupa LOTOS S.A. signed the letter of intent ("Letter of Intent"), ("Parties"), in which the Parties declared their intent to enter joint talks to analyse feasibility and potential conditions for implementing a joint investment to build a gas and steam power station in Gdańsk by July 2026 ("Project"). The scope of the Project involves the analysis and selection of the optimum unit configuration (technology, efficiency, capacity) and its location.

According to the provisions of the Letter of Intent, the Parties shall hold talks to agree the underlying assumptions and terms and conditions of the Project, in particular as regards:

- establishing legal and technical conditions for implementation of the Project by the parties, as well as any other factors that may be relevant from the point of view of Project implementation,
- agreeing the principles of the Project's funding,
- in the case of construction of a gas and steam power station: preparing a joint-venture draft agreement governing the principles of the Parties' co-operation in carrying out the Project,



- agreeing on the remaining terms and conditions of Project implementation.

The Letter of Intent binds the Parties until respective agreements are concluded, no later than by 31 December 2021.

### **Results of the capacity market auction for 2025 for entities belonging to the Energa Group**

On 17 December 2020, Polskie Sieci Elektroenergetyczne S.A. published the preliminary results of the main capacity market auction for 2025. Energa Group companies entered into one-year capacity contracts (i.e. for 2025) with a capacity obligation of 528 MW which may generate a total revenue of approx. PLN 91.2 m.

### **Information on the court granting an injunction as security for the claims for annulling or revoking a resolution of the Extraordinary General Meeting of Energa SA**

On 9 December 2020 and 16 December 2020 the Management Board of Energa learned of the issuance on 7 December and 10 December 2020 respectively, by the Regional Court in Gdańsk, 9<sup>th</sup> Commercial Division, of decisions on granting the Company's shareholders injunctive relief as security for their claim for revoking or annulment of Resolution No. 3 of the Extraordinary General Meeting of the Company of 29 October 2020 on the withdrawal from trading on the regulated market operated by Giełda Papierów Wartościowych w Warszawie S.A. of 269,139,114 series AA ordinary bearer shares in the Company and marked in Krajowy Depozyt Papierów Wartościowych S.A. with ISIN PLENERG00022 code (the "Resolution"), by suspending its performance for the duration of the proceedings. The issuance of these decisions results in suspending the enforceability of the Resolution.

The Company does not agree with the above mentioned decisions in their entirety and has taken appropriate legal steps to change the issued decisions.

These applications for injunctive reliefs in the aforementioned cases were filed together with statements of claim for repealing or annulling the Resolution. The Company does not agree with the lawsuits filed and submitted statements of defence within the time limit and in the manner prescribed by the applicable legal regulations.

### **Global coronavirus pandemic and its impact on the Group's performance**

On 11 March 2020, the World Health Organization (WHO) announced a SARS-CoV-2 coronavirus pandemic. On 14 March 2020, the state of epidemiological threat was declared in the territory of the Republic of Poland. On 20 March 2020, the state of epidemic was announced in the territory of the entire country.

The pandemic of SARS-CoV-2 coronavirus causing COVID-19 illness is a phenomenon that will undoubtedly have a huge impact on the global economy and on the situation in Poland (for more information, see chapter 3.1 of this Report).

In the current market conditions, the Group identifies the following potential market risks:

- declining demand for electricity, especially from end customers from A, B and C tariff groups;
- decreasing, as a result of lower domestic demand, production of electricity from conventional sources, including specifically Ostrołęka B power plant operating in the forced mode imposed by the Transmission System Operator;
- shrinking proceeds from current receivables for electricity due to the extraordinary measures implemented in Poland, which may result in a deterioration in liquidity of trading companies selling electricity to end users;
- deteriorating payment discipline of customers due to their deteriorating financial situation;
- eroding work performance, likely to arise from sick leaves, compulsory quarantine and implemented work reorganization designed to prevent the spread of the virus, also through the use of remote work;
- increased costs in the short term due to the need to purchase personal protection equipment for personnel;
- the need for Energa Obrót to submit new collaterals securing its purchase transactions to the Commodity Clearing House (Izba Rozliczeniowa Giełd Towarowych S.A. or IRGiT) within the framework of topping up security deposits as a direct result of the currently observed decline in electricity prices. It should be stressed, however, that currently a broader range of tools enabling submission of non-cash collaterals to IRGiT has been implemented as part of the shielding measures introduced by the Polish Government in connection with the pandemic, meant, among others, for companies trading on the Polish Power Exchange to hedge against liquidity risk (the Act of 14 May 2020 on the Amendment to Certain Acts Concerning Protective Measures in Connection with the Spread of the SARS-COV-2 Virus).
- due to the potential reduction of economic activity, electricity consumers may have temporary problems with timely payments, which would have a negative impact on the Group's revenues.

The Energa Group estimated the negative impact of the pandemic in 2020 in the form of the lower EBITDA of PLN 66 million.

As regards the financial activities, based on scenario analyses, the Group does not identify the risk of default on its obligations, including obligations under financing agreements. The Group also undertakes liquidity protection measures in connection with changes in the market environment, as well as in relation to the maturing credit facilities. Intensive steps in this area are being taken with financial institutions, and the risk of failure has not been identified.

In view of the above, there are no indications that the Group's continuing in business as a going concern may be at risk.

## **Composition and changes to the composition of the corporate bodies of Energa**

There were changes in governing bodies of the Company in 2020. These changes were described in detail in chapter 10.7. *Corporate bodies* hereof.

The CVs of all members of the Company's bodies can be found online at <https://grupa.energa.pl/en/energa-group/company-management>.

## **Other**

Additional information is provided in the Consolidated financial statements in Note 38 *Other information significantly affecting the assessment of assets, financial position and the financial result of the Group*.

### **2.3.1. Material events after the balance sheet date**

#### **Information about results of impairment tests**

In January 2021 the Management Board of Energa learned of the result of impairment tests of non-current assets of the Energa Group and impairment tests of shares in subsidiaries held by Energa SA, which were conducted for H2 2020 in accordance with IAS 36.

As a result of the above mentioned impairment tests of non-current assets of the Group, it was found necessary to:

- reverse an impairment losses on generation assets of subsidiary Energa Elektrownie Ostrołęka SA to the amount of PLN 414 m,
- reverse an impairment losses on CHP assets belonging to Energa Kogeneracja Sp. z o.o. in the amount of PLN 69 m,
- reverse an impairment losses on generation assets belonging to Energa OZE SA in the amount of PLN 13 m.

In addition, following the impairment tests of shares in subsidiaries held by Energa SA, the total result of created impairment losses was PLN 24 m (impairment loss in the value of shares in Energa Kogeneracja Sp. z o.o. in the amount of PLN 5 m and impairment loss on the value of shares in ENERGA AB Finance (publ) in the amount of PLN 19 m).

These events were of a non-cash nature. They impacted the net result of the Energa Group and Energa SA for 2020 without affecting the EBITDA.

#### **Suspension by the Polish Financial Supervision Authority of administrative proceedings on granting the permit to withdraw shares of Energa SA from trading on the regulated market**

In January 2020 the Company received a decision from the Polish Financial Supervision Authority ("PFSA") dated 15 January 2021 on suspension of administrative proceedings on granting the permit to withdraw 269,139,114 of Company's shares from trading on the regulated market. The basis for this suspension are the legal claims reported by the Company in current reports Nos 80/2020 of 9 December 2020 and 82/2020 of 16 December 2020.

In the explanatory memorandum to its decision, the PFSA cited art. 97 § 1 (4) CAP as the legal basis for the suspension of the proceedings, and indicated that review of the case and issue of the decision depends on the prior resolution of the preliminary issue by the court.

## 2.4. Innovative activities

In 2020, the Energa Group companies in the field of Research, Development and Innovation (RDI) were implementing 22 projects, including 9 projects commenced in previous years. The Energa Group allocated over PLN 5 million for R&D<sup>1</sup> in 2020.

The Energa Group companies mainly focused on initiatives and projects in the areas defined by the Strategic Research Agenda (SRA) of the Energa Group for 2019–2028, which is sort of a “roadmap” that defines directions of research, development and innovations.

On 15 January 2020 the Management Board of Energa appointed the Innovations Committee comprising of representatives of key companies of the Energa Group responsible for innovations, led by the Director of the Energa's Development and Innovations Office. Key tasks of the Innovations Committee include searching for synergies in planned innovation initiatives and RDI projects being implemented in companies of the Energa Group, presentation of opinions on planned innovative initiatives and projects being pursued at the request of interested parties, expert support and exchange of experience in the field of RDI as regards planned innovative initiatives and RDI projects being implemented.

Since 2017, Centrum Badawczo-Rozwojowe im. M. Faradaya Sp. Z o.o. (Faraday Research and Development Centre, “CBRF”) has been active in the Energa Group. The Centre was established for the purpose of implementation of Energa's Innovation Strategy for 2017-2020, with a 2025+ horizon, including i.a. implementation of R&D projects. In 2020, CBRF at the request of companies of the Energa Group pursued projects in the field of distribution (e.g. Smart Meters, research into impact of MV grid voltage of peak capacity and energy consumption, analysis of the impact of changing the MV grid from overhead to cable grid, analysis of energy losses for selected MV/LV transformers in the grid operated by Energa Operator S.A.), as well as the hydrogen project described below (rSOC).

For the purpose of completion of the aforesaid tasks, CBRF engages scientists from leading scientific and research centres in Poland, inter alia from the Gdańsk University of Technology, the Institute of Fluid Flow Machinery of the Polish Academy of Sciences, as well as experienced employees of the Energa Group companies.

### 2.4.1. Key innovation projects of the Energa Group performed in 2020

#### RSOC

On 10 March 2020 Centrum Badawczo-Rozwojowe im. M. Faradaya Sp. z o.o and the National Centre for Research and Development (NCBiR) signed an agreement for EU co-funding of a construction project involving a modular installation of reversible hydrogen-producing solid oxide cells, which is the first “hydrogen” project in the Energa Group, co-financed with aid funds. The goal of the project is to develop and build a system that generates hydrogen using process steam (power-to-gas, P2G), based on the stack of solid oxide electrolyzer cells, also to work in the reversible mode as rSOC, reversible solid oxide cell. Such an installation can be a key component of energy storage systems, using surplus energy, in particular from unstable renewable energy sources (wind, solar power), while electrotechnical cells, working in reversible mode (rSOC), make it possible to improve flexibility of operation of conventional power units.

#### Bystra Battery Storage System (NEDO)

In 2020, Energa OZE SA continued the NEDO Project whose objective is to gain knowledge and experience with respect to the possibility of using energy storage technologies to improve flexibility of the National Electricity System. The final project deliverable will be an energy storage facility at the Bystra Wind Farm. The energy storage facility is being built as part of the Smart Grid Demonstration Project in Poland implemented by NEDO, a Japanese governmental organisation. Energa OZE SA is responsible for construction of the necessary infrastructure for the foundations of the components of the facility, integration of the facility with the National Electricity System and operation of the facility during the demonstration period.

---

<sup>1</sup> The Energa Group defines innovation activities and works carried out as part of research and development activities as defined in art. 2 points 3 and 4 of the Act of 30 April 2010 on the principles of financing science.

## **Water-floating photovoltaic panels**

In 2020 Energa OZE SA continued the innovative project of PV panel system on a water tank with the capacity of up to approx. 1 MW.

The goal of the project is to develop and test a floating PV system in order to effectively use water bodies in the future (including at former mining sites). Performance of such a project is an innovative undertaking on a national scale.

The pilot plant which was developed by Energa OZE SA in 2018 is located at EW Łapino with the total capacity of 3.92 kW. Four small PV plants made up of 4 PV panels were built (a total of 16 panels, 245 W each).

The project is being implemented in collaboration with Centrum Badawczo Rozwojowe im. M. Faradaya, which involves development of the design of innovative floats which the PV panels will be fitted to.

The benefits of PV farm operation will be mainly new renewable energy and an improved share of renewable energy in the production mix of the Energa Group. When the pilot project is successfully completed, Energa OZE SA plans to implement this technology in the Polish market. As studies of the technology have shown, installation of photovoltaic panels on water significantly increases the amount of electricity generated.

## **System for assessment of technical condition and risk of MV cable line failures (SORAL)**

In 2020 Energa Operator SA continued implementation of the SORAL project involving deployment of a system for assessment of technical condition and risk of MV cable line failures, based on diagnostic tests conducted offline, co-financed by the National Centre for Research and Development. The purpose of the research project is to assess possible change of the current way of planning of repair and investment needs, based on the analysis of failure rate of the power grid and diagnostics of the condition of MV cable insulation. One of the expected results of the research project is possible improvement of the investment planning process in terms of support in facility selection (sections of MV cable lines) which require modernisation to prevent failures.

## **EUniversal**

In 2020 Energa Operator SA continued EUniversal demonstration project in the area of grid flexibility development, testing options to use flexibility services on the energy market. The project is implemented in a European consortium by 18 European companies related to the energy sector and research and innovations are co-financed from Horizon 2020 EU programme. The project will support introduction of changes to energy consumption or production, also energy generated from renewable sources, to eliminate threats to operation of the energy infrastructure. As part of the project, a new MV/LV transformer station will be developed to monitor and control the low voltage grid operation.

## **OneNet**

In 2020 Energa Operator S.A. continued the OneNet Project. It is a demonstrator project designed to test provision of flexibility services to DSO and TSO, using the digital platform, where flexibility services in the field of balancing, congestion management and auxiliary services will be ordered and activated so that TSO and DSO can provide services. The purpose of the project is to develop new mechanisms and business models to support new grid services which increase flexibility of the HV and MV transmission and distribution grid, develop the new platforms in the open standard that supports sale and purchase of grid services for DSO and TSO by market participants, build a demo area for tests (among others customer acquisition, integration and development of IT systems) and test the potential for using grid services to improve grid flexibility.

The project is being implemented in a European consortium, co-financed from Horizon 2020 programme and its total cost (entire consortium regarding direct and indirect costs) is EUR 28.07 million. The project is scheduled for completion in September 2023.

## **SERENE (new project)**

The purpose of the SERENE project is to develop mechanisms and business models for new grid services that would improve flexibility of MV and LV distribution network, apply technical solutions that support active management of the LV grid using AMI meters. The research will be conducted in demo areas in three European countries of Denmark, the Netherlands and Poland (municipality of Przywidz) and will involve the analysis of the potential of using V2G and DSR solutions in industrial facilities, mobile energy warehouses in LV grid and smart zero-emission buildings to provide DSO services that improve grid operating flexibility.

This is the third research project prepared by Energa Operator SA, which received co-financing from European Commission Horizon 2020 funds in December 2020. The co-financing agreement is to be officially signed with the European Commission by the end of February 2021.

#### **2.4.2. Other RDI operations of the Energa Group in 2020**

##### **Energa Invest to receive nearly PLN 3 million of co-financing from the National Centre for Research and Development (NCBiR)**

In December 2020, Energa Invest Sp. z o.o. announced that it would receive nearly PLN 3 million in co-financing from the NCBiR for implementation of new solutions involving construction of HV poles - innovative special purpose single and double circuit poles for HV lines with power supply system fed directly from the HV line.

The purpose of the project is to develop innovative special purpose single and double circuit poles for HV lines with power supply system fed directly from the HV line as a result of industrial research and development work involving conceptual, simulation, verification and prototyping work on new designs and power supply system – ready to deploy in the market to improve competitiveness of Energa Invest Sp. z o.o.

Energa Invest Sp. z o.o. will partner with the Gdańsk University of Technology to complete project.

#### **Acta Energetica**

In 2020, the Energa Group continued to publish *Acta Energetica*, a science and engineering quarterly. The quarterly is being published in cooperation with the Gdańsk University of Technology since 2009. This is a modern science periodical presenting research findings and results of implementation of practical solutions in the power industry. It is mainly addressed to professionals in the power industry: engineers and technicians, managers, university staff and students of power engineering-related studies. Its topics focus on R&D&I in the power industry and power engineering, and on related subjects.

#### **Non-Disclosure Agreement with NCBiR**

On 8 December 2020 Energa SA concluded an NDA with the NCBiR. Both parties to the Agreement intend to commence work on joint organisation and co-financing of various instruments as part of R&D programmes. The goal is to increase the scale of industrial implementations, innovative solutions by entering into a MoU to the co-operation agreement, which will require disclosure of information the transmission, disclosure or use of which may breach interests of the parties. Energa and the NCBiR decided to enter into the NDA to lay down conditions under which the parties will exchange confidential information.

#### **2.5. Capital expenditure**

In 2020, the capital expenditure incurred in the Energa Group totalled PLN 1,721 million and were mainly spent on investment projects in the Distribution Business Line, i.e. PLN 1,350 million.

The investments of the Distribution Business Line included grid expansion aimed at connecting new customers and producers as well as upgrades to improve the reliability of electricity supply. Additionally, expenditure was incurred on innovative technologies and grid solutions, such as the Smart Grid conversion project.

In the Generation Business Line, capital expenditures totalled PLN 274m, a significant portion of which were outlays for construction of the new Wind Farm Przykona and alignment with environmental requirements at Ostrołęka B Power Plant. In addition, financial expenditure was appropriated for modernisation of sources and district heating system and water energy facilities.

The Sales Business Line allocated the most funds on work related to lighting assets.

Table 1: Implementation of the investment programme in 2020

Project description	Capital expenditure in 2020 (PLN millions)
<b>Distribution Business Line</b>	<b>1,350</b>
Modernization of the distribution network to improve reliability of supplies	416
Grid expansion due to new customer connections	518
Grid expansion in connection with HV flows and connections of electricity sources	82
Other capital expenditures, collisions and corrections	334
<b>Generation Business Line</b>	<b>274</b>
Przykona Wind Farm	123
Ostrołęka B Power Plant (IOS II)	74
Modernisation of sources and district heating systems	17
Modernisation of hydraulic power stations	21
Other investments	39
<b>Sales Business Line</b>	<b>66</b>
Capital expenditures for lighting assets	29
Sales Support System	2
Other capital expenditures	35
<b>Other companies, projects and corrections</b>	<b>31</b>
<b>Total</b>	<b>1,721</b>

## 2.6. Strategy and directions of development of the Energa Group

### 2.6.1. Objectives of the Group strategy

#### Energa Group's development strategy

On 15 November 2016, the Company's Supervisory Board passed a resolution approving the documents: "Energa Group Strategy for 2016–2025" (the "Strategy") and "Multi-Annual Plan of Strategic Investments of the ENERGA Group for 2016–2025". In order to reinforce the position of the Energa Group as an innovative, customer-centric energy group, while providing for a stable business foundation based on predictable regulations, two business development and value creation areas were defined in the Strategy: The Infrastructure and the Customer, within which the Energa Group's objectives and strategic programmes were defined, that are now still being implemented.

In April 2020 PKN ORLEN became the majority shareholder of the Energa Group. The ORLEN Group aims to become the leader of balanced energy transformation in Central and Eastern Europe. To achieve this, on 30 November 2020 PKN ORLEN announced the "Strategy of the ORLEN Group until 2030". The document lays down the following goals for the energy area:

- In the 2030 horizon, the installed capacity of RES assets will increase in the ORLEN Group to more than 2.5 GW in 2030, mostly as a result of investments in offshore wind farms (1.7 GW) and onshore wind farms and photovoltaic installations (0.8 GW);
- The ORLEN Group plans to expand gas generating units in the CCGT technology (including in Ostrołęka and potentially in Gdańsk). In the 2030 horizon, the installed capacity of gas assets will increase 1.8-times, from 1.1 GW in 2019 up to 2 GW in 2030;
- Reduction of CO<sub>2</sub>/MWh emissions by 33% in the energy segment, and achievement of emission neutrality by 2050;
- By 2030, the strategy of the ORLEN Group provides for pilot construction of energy storage facilities and hydrogen installations for offshore and onshore RES (electrolysis).

Currently, the Energa Group participates in the process of operationalization of "Strategy of the ORLEN Group by 2030".



## 2.6.2. Implementation of the Strategy in 2020 and development prospects for 2021

The overarching objective of the Company is to grow the value of the company, guaranteeing a return on capital employed for shareholders. Furthermore, the Company performs functions associated with assurance of energy security of Poland. Because of the high proportion of regulated activities in its business structure, the Group maintains the status of a company with a balanced risk profile.

### Distribution Business Line

The Energa Group's Distribution Business Line is consistently seeking to become a leading distribution system operator (DSO) by improving its grid performance and reliability, and providing top quality customer service. In 2021, the planned investment budget of the Distribution Business Line is similar to that of 2020.

The capital expenditures of Energa Operator SA account for 99.9% of total investment expenditures of the Distribution Business Line.

Key investment areas of Energa Operator SA in 2021 include:

- connecting new customers and new generating sources and the associated construction of new grids;
- expanding and rebuilding the grid to ensure the possibility to handle the increased demand for capacity, in particular as regards the HV grid;
- rebuilding/modernising the distribution grid, at all voltage levels, to improve continuity of customer supply (SAIDI/SAIFI) and comply with the required quality parameters for electricity supply and to reduce grid losses, such as:
- replacement of overhead MV naked power lines running through forest and wooded land with cable lines and/or insulated overhead cables,
- MV grid automation,
- replacement of non-cross-linked MV cables,
- replacement of LV cables with insulated cables with terminals,
- construction of new MV power line connections,
- replacement of HV/MV transformers;
- connection and construction of public charging stations and points which are to be part of the road charging infrastructure for the public transport in order to meet obligations arising out of the Act of 11 January 2018 on Electromobility and Alternative Fuels;
- purchase and assembly of smart metering infrastructure to be implemented under planned amendments to the Energy Law as a consequence of implementation of Directives of the European Parliament and of the Council of (EU) No 2009/72/EC and 2009/73/ED and of the Capacity Market Act implementing the requirement to take readings of energy consumption every hour and make settlements of the power fee based on such readings starting from January 2021 and in connection with changes to the Balancing Terms and Conditions under which the Transmission System Operator expands the DSO's obligation to publish hourly data;
- adjusting grids of Energa Operator SA to the requirements defined in COMMISSION REGULATION (EU) 2017/2196 of 24 November 2017 which established the Grid Code relating to the network code on electricity emergency and restoration, the so-called NC ER code.

The purpose of these investments is to achieve operating capabilities for the designated facilities over a period of 24 hours in the event of loss of the primary source of power supply and to assure the required functionality defined in the National Power System Restoration Plan.

In addition to the aforementioned investment projects, in 2021 Energa Operator SA plans to pursue further development of the ICT networks and systems supporting the implementation of key business processes within the company and to continue expansion and modernisation of the corporate car fleet, in particular as regards heavy technical equipment for carrying out work on the grid.

In 2020 the process of TETRA network optimisation and development started. As part of the process, base stations were built and deployed in Kielpino, Górzno, Polanowo, Kołobrzeg, Gdańsk and investment projects were prepared in Biały Bór, Żukowo, Szemud and Nakla. Based on network operation analyses, a series of optimisations were performed for base stations to improve the coverage. Further base stations are scheduled for deployment in 2021 to improve TETRA signal coverage, in particular around key power facilities subject to NC ER code implementation.

Since 2020, the Distribution Business Line of the Energa Group has supported and pursued the strategy adopted by the European Union consisting in decarbonising power generation and transmission and reducing emissions in the transport sector, especially in municipal areas. The primary step in that direction is construction by Energa Operator SA of 283 stations for charging electric vehicles in 8 cities: Gdańsk, Gdynia, Koszalin, Elbląg, Olsztyn, Płock, Toruń and Włocławek by the end of March 2021. Charging stations and electric cars using such stations will not only boost demand for electricity in the NPS (replacing hydrocarbon fuel), but, because of energy storage banks in electric cars, may become balancing market participants in the future, based on V2G technology, which is the directional electricity flow at the charging station.

In 2021 Energa Operator SA will continue to implement the billing Sales Support System with CRM – CC&B elements to achieve full support for provision of distribution services to customers connected to the LV grid and to functionally develop the system to achieve readiness of customers connected to the MV and HV grids for migration. This development is connected to preparation for legal changes arising out of amendments to the Energy Law and the draft Regulation on the Central System of Energy Market Information. The System, when deployed by the TSO, will support exchange of data on connection points, customers, contracts, metering and billing data among DSOs, Sellers, Producers, Companies Responsible for Balancing as part of support of the energy market in the national system.

The year 2020 saw a distinct and dynamic rise in the number of micro-installations (mainly photovoltaic ones) connected on registration. In 2020 alone, nearly 69,000 such installations were registered. The current volume of micro-installations connected to Energa Operator SA grid exceeds 88,000. The 2020 trend was four times higher compared to 2019, which demonstrates the need for organisational and grid preparation to accommodate the future growth in applications in 2021.

In 2021 strategic market changes will be deployed, such as calculation and remittance of the power fee, adaptation of metering data publication in the Balancing Market to the changes, further dynamic growth of micro-installations connected to the grid at the customer's request, increased risk of the need to supply power to customers based on sales under reserve contracts after the sellers or POB are no longer able to provide services.

On 26 November 2020 the Energy Regulatory Office held an auction to sell electricity from renewable energy sources. Among projects applying for connection to the Energa Operator SA grid, the auction was won by 23 companies with the total capacity of 387.11 MW.

Considerable growth in interest in construction and connection of new RES facilities continues. In historical terms, in 2020 alone the connection process covered 1,118 producers with the total capacity of over 3,548 MW.

Connecting RES sources to the grid will continue to be one of the challenges faced by Energa Operator SA in 2021 and beyond.

Year 2021 will be another year for the new model of qualitative regulation for years 2018-2025 implemented in 2019 by the URE President and described in the document entitled "Qualitative regulation in the years 2018-2025 for Distribution System Operators", version dated 29 May 2019. The new quality regulation has introduced far-reaching changes, for instance in terms of division and calculation of supply reliability ratios, return on capital employed, level of operating expenses reflected in the tariff, and quality regulation. The URE defined very ambitious objectives for improvement of key performance indicators the performance of which (mostly area power supply reliability regulatory indicators: CTP and CP as well as connection time indicators CRP) will have direct impact on the company's regulated revenue as regards return on equity – the level of performance in 2021 will be reflected in the 2023 tariff.

The year 2021 will see continued efforts undertaken to bring the infrastructure of Energa Operator SA, necessary for the restoration of the National Power System, in line with the requirements of Commission Regulation (EU) 2017/2196 of 24 November 2017 establishing a network code on electricity emergency and restoration. Energa Operator SA is obliged to complete those tasks prior to the end of 2022.

In 2020 construction of three transformer stations (TS) (110 kV/MV) was completed. These include TS Olsztyn Centrum (Branch in Olsztyn), TS Daszyna (Branch in Płock) and TS Kutno Kotłiska (Branch in Płock). Three more TSes are being built and scheduled for technical acceptance in 2021.

Under provisions of the Energy Law (Article 16), the President of the Energy Regulatory Office found that the update of the Development Plan of Energa Operator SA in the field of meeting present and future demand for electricity from 2020 to 2025 had been consulted. When informing on this consultation, the President of the Energy Regulatory Office determined the amount of reasonable expense for the calculation of the distribution tariff during 2020-2025 Development Plan.

The ambition of the Distribution Business Line is to lead the implementation of innovative technical, organisational and process solutions. The Energa Group implements innovative solutions in such areas as smart grid, smart metering, advanced network asset management and cable diagnostics systems or smart energy storage and seller and customer support system. The DSO's

activities additionally involve cooperation with another DSO on international research and development projects. The goal of the projects is to devise mechanisms for the development and integration of the future energy market and to set up the conditions for new services on the market on the DSO's side.

In the area of research and development, it is important to build relationships with universities and scientific institutes. Cooperation with local research institutions: the Gdańsk University of Technology, the Gdańsk Branch of the Institute of Power Engineering, and the Institute of Fluid-Flow Machinery at the Polish Academy of Sciences is being developed in the framework of the activities.

Despite numerous restrictions related to the SARS-CoV2 epidemic in 2020, Energa Operator Wykonawstwo Elektroenergetyczne Sp. z o.o. carried out uninterrupted activity related to performance of contracts for the construction and modernisation of Energa Operator SA electric grid.

The company provides a strategic reserve of contracting resources for Energa Operator SA in the event of mass failures in the electric grid of Energa Operator SA, and also if some of the electrical engineers of the power emergency teams cannot work as a result of an increased number of cases of isolation and quarantine.

## **Generation Business Line**

Energa OZE SA pursues development directions in line with the Strategy of the ORLEN Group by 2030 announced in 2020, which assumes achievement of climate goals, among others. Directions of development pursued in 2020 mainly included commissioning of new RES manufacturing capacity. The directions also provided for involvement in development of offshore wind farms, as well development of service and maintenance competencies in this field. Development goals mainly include:

1. Construction and commissioning of PV Gryf photovoltaic farm with the capacity of 19.8 MW.
2. Preparation for construction and obtaining of corporate consents to implement five PV projects with the capacity of approx. 4.2 MW.
3. In 2021, a newly built, prototype hybrid energy storage will be commissioned at Bystra Wind Farm, completed as part of international co-operation with the Japanese partner. The demo period is scheduled to end in mid-2021.
4. Energa OZE SA works to obtain two concessions to build offshore wind farms (OWF) in the Polish part of the Baltic Sea. The work is supported by a series of R&D projects, prepared in the field of technologies that support development of the OWF. The work resulted in obtaining a valid decision on the location of the artificial island for the project. The work is performed in co-operation with PKN ORLEN.

In 2021 Generation Business Line will carry out a series of major activities related to implementation of projects involving generating infrastructure, improvement of efficiency of existing sources, and optimisation of processes in the Line companies.

## **Sales Business Line**

Energa Obrót SA is the leading entity in the Sales Business Line, engaged in key activities relating to trading in electricity and customer service. Companies within the Sales Business Line are engaged in selling electricity and gas along with bundled products to all customer segments, from industry to small, medium and large enterprises and to households.

The strategic objectives laid down in the Energa Group Strategy for 2016-2025 are pursued through corresponding Strategic Programmes. Energa Obrót SA is the leader of Strategic Programme No. 5, i.e. "Implementation of a new customer-centric business model and development of new business areas." The Integrator model focused in particular on the development and selling of a new product offering, addressed mostly to individual customers.

The deliverables expected from the implementation of the programme were classified into two main groups of objectives:

- quantitative – New Business EBITDA at an appropriate level until 2020,
- qualitative – operations focused on improving organisational performance and the quality of services.

Energa Obrót SA defined its strategic and key areas of development in mid-2019. The update was meant to adjust the growth directions of Energa Obrót SA to the existing market trends within the area of trading in electricity and related products. Each Strategic Direction features a series of initiatives, such as the pre-defined Operational Excellence Strategic Programme (formerly Programme for Improvement of Effectiveness), which features 23 initiatives in the Sales Business Line.

In 2020 Energa Obrót SA focused on further development in adopted strategic directions and implemented individual, pre-defined initiatives.

The strategy of the Sales Business Line envisages an increased share in market margin by growing the number of electricity and gas connections and defending own customer base by winning customer loyalty and cross-selling. The sales network is being expanded, new selling channels are being set up and the existing ones are undergoing optimisation. New categories have been added to the product portfolio: core offering, medical services, savings zone, insurance, and auto assistance. Making its customers aware that, aside from selling electricity, it offered other attractive services for business customers, the company added the "Efficiency Product Suite" to its portfolio. In addition to this, the company continues to optimise its processes, in particular those relating to handling of complaints and registrations. In consequence, the number of overdue complaints is minimised, and the internal consultation delivery indicators are improving, which translates directly into timely resolution of customer complaints.

The company continues to monitor the changing market conditions. Key factors affecting Company operations in 2020 feature the outbreak of the pandemic and consequences of the restrictions on operations of enterprises, especially the periodical abrupt drop in demand for electricity and resulting drop in energy prices.

Over the recent years, electricity prices in the forward market in Poland have been mainly determined by the price of CO2 emission allowances (EUA) and the coal price. In the early 2020, the market received information about the epidemic spreading in China. Initially, the issue was viewed as a local aspect, so in January and February 2020 both markets remained in mild, long-term falling trend. In March it became evident that the epidemic would affect all continents and concerns of global slowdown arose. Besides a drop in prices of emission allowances and prices of coal which under normal terms determine the price of Polish energy, the drop in prices for emission allowances reflected market concerns as to future demand for energy. During the first wave of the pandemic we actually faced a considerable drop in demand compared to 2019 (nearly 10% drop in demand yoy in April 2020). By the end of 2020 the demand for electricity grew consistently.

In 2021, Energa Obrót SA will continue to implement the adopted initiatives and focus on organic growth of the unit margin on its core product and sale of additional products, in particular in the area of energy efficiency. The company monitors market developments in the areas of its operation on an ongoing basis and dynamically adjusts its business model to the challenges it faces.

## **2.7. Awards and distinctions**

<b>February 2020</b>	Vigeo – ESG Rating – 42 points
<b>March 2020</b>	MSCI – ESG risk rating – A
<b>November 2020</b>	<p>Award in the Energy World Leaders, Innovation of the Year category, 32nd EUROPOWER 2020 Energy Conference</p> <p>Award for construction of a hybrid energy storage facility. The storage facility was built as part of the innovative international project called NEDO and is the largest battery-based, hybrid energy storage facility in Poland which co-operates with the SPS system, ensuring high effectiveness, and supporting tests of solutions related to protection of the transmission grid and distribution network against overloading.</p>
<b>December 2020</b>	"Forbes 2021 Climate Leader" award – Reduction in GHG emissions

## **2.8. Social responsibility and ESG with a statement about non-financial information**

Year 2020 was the turning point for implementation of goals and tasks for the Energa Group in the area of corporate social responsibility and sustainable development. This resulted from a number of factors, such as:

- the pandemic,
- acquisition of the Energa Group by the new owner and the declaration of zero emissions by 2050, or striving for Carbon Negative standard and development of a multi-energy group,
- energy transformation announced and declaration of the performance of ambitious goals in the field of investments in clean energy (RES investments),
- European Green Deal 2050 and resulting more efficient use of resources through the transition to a clean circular economy, tackling biodiversity loss and reducing pollution levels,

- performance of the Paris Agreement assumptions,
- growing importance of ESG indicator when assessing the corporate value and credibility by global rating agencies.

These events showed how important it was to be responsible in the areas of corporate social responsibility and sustainable development. The growing power of ESG indicators in building corporate value determined operations in the areas of climate and environment, relations with communities and stakeholders and corporate governance.

Declaration by the new owner of the Energa Group, PKN ORLEN, on zero emissions by 2050 meant that the second half of 2020 saw extensive work on development of the new Strategy of Sustainable Development, Climate Policy and Biodiversity and Decarbonization Strategy. Actions to implement Agenda 2030 assumption were intensified. The first major step was joining the initiative by the Ministry of Economic Development, Labour and Technology entitled "Partnership initiative for achievement of Sustainable Development Goals" (*SDG - Sustainable Development Goals*). The Energa Group also joined the Partnership Programme of the Responsible Business Forum. Co-operation with the Responsible Business Forum will improve activities in the environmental, social and corporate governance areas, and will contribute to further development of social responsibility to the benefit of stakeholders of the Energa Group.

10 new good practices of the Energa Group were submitted for the "Responsible Business in Poland 2020. Good practices" report. It should be stressed that the 2019 report published in April 2020 recognized 11 good practices of the Group. The "Responsible Business in Poland. Good practices" report is the most important regular publication by the Responsible Business Forum, published since 2002. Good practices discussed in the report are presented within the context of the UN Sustainable Development Goals of 2015, in accordance with Agenda 2030 and in accordance with ISO 2600.

In addition, in the 14th edition of Responsible Companies ranking, Energa was again ranked 4th in the "Fuels, energy, mining" sector. The companies in the ranking are evaluated according to the quality of their corporate social responsibility system.

Year 2020 is also the first case of active participation of the Energa Group in 8th CSR Fair and the Responsible Business Week initiative. Participation in these projects resulted in an interesting exchange of views and topics in the CSR and ESG area and global trends in the sustainable development strategies. Representatives of the Energa Group were both participants and speakers of the following webinars: Leadership and strategy challenges - Contemporary opportunities and challenges in the process of shaping and implementing a sustainable development strategy as well sustainable finance - Green Financing – ESG-linked loan case study.

Following the international standards, the CSR Report published in 2020 entitled "Our responsibility" was based on the Global Reporting Initiative international standard of non-financial reporting, core option.

The past year showed that the stakeholders and the market focused very heavily on building the value of enterprises based on ESG indicators. It should be stressed that in the early 2020 the Company established the ESG Division, which shows that the Company is developing in this area and catching up with market and stakeholder expectations. ESG activities were heavily intensified.

Until 3 December 2020 Energa was a participant to the WIG-ESG index. In accordance with GPW Benchmark S.A. press release of 1 December 2020, the reason for deleting Company's shares from that index were methodological assumptions under which WIG-ESG cannot include companies with fewer than 10% of free floating shares. It should be stressed that deletion from the index had no connection with performance of assumptions of the Sustainable Development and Responsible Business Strategy of the Energa Group, and the range of actions taken in 2020 in the ESG area was expanded.

The use of another lending instrument in the esg-linked formula contributed to the decision to apply the additional analysis of ESG impact and risk. In 2020 Energa used tools such as Impact Barometer, B-Assessment and SDG Action Manager for the first time. The initiated processes will support detailed tracking of development of areas such as environmental protection, corporate social responsibility or organizational governance in the future. The progress was appreciated by analysts, as attested by the highest ESG rating awarded to the Company by Vigeo Eiris. The score of 42 points is an increase by 13.5% compared to the previous year.

Care about transparency of operations and effective implementation of SDG goals was also affirmed by participation in two initiatives: partnership for implementation of sustainable development goals in Poland coordinated by the Ministry of Economic Development, Labour and Technology and in UN Global Compact, a United Nations initiative.

The ongoing global, intense discussion about climate protection directed actions of the Energa Group to this area. As a responsible business partner, the Group consciously joined development of "regenerative economy of the future" that regenerates the losses caused by human actions in the natural environment. The circular economy has a central place in it.



Knowing that the World Economic Forum links the greatest threats to all industries with the state of the natural environment, these issues are at the forefront of the Group's activities in the Sustainable Development Strategy.

As part of the Environmental and Energy Policy being pursued, the Energa Group minimizes the impact of companies on climate change and enhances sustainable development. The main goal of the Group is regular reduction in greenhouse gas emissions, in accordance with assumptions of the European Green Deal and the PKN ORLEN's strategy to achieve emission neutrality in 2050. The Integrated Environmental and Energy Management System of the Energa Group, compliant with the EMAS Regulation and ISO 14001 and ISO 50001 standards, supports prevention of climate changes.

In striving for the Carbon Negative standard, the Energa Group reduces production of energy from hard coal and has regularly reduced the consumption of energy, raw materials and water. The share of carbon generating units in the Energa Group has been decreasing due to retirement of conventional units (e.g. shutdown of two coal-fired boilers and reduction of capacity of the third boiler in Elbląg CHP Plant, which belongs to Energa Kogeneracja), implementation of high-efficiency conventional technologies (among others the second Flue Gas Denitrification Plant at Energa Elektrownie Ostrołęka) and greater increase in RES share. Today, 53 RES facilities in the Group include 45 small hydroelectric power stations on rivers, a hydroelectric power station in Włocławek, 6 large wind farms (Bystra, Karścino, Karcino, Prasówek, Myślino, Przykona) and 2 photovoltaic farms: near Gdańsk and in Czernikowo near Toruń. Gryf photovoltaic farm with a capacity of up to 20 MW is being built in the municipality of Przykona. The plant will supply electricity to more than 13,000 households.

Development of grid infrastructure and energy storage technologies is necessary to achieve an ever higher level of RES. As part of the Smart Grid Project pursued by the Energa Group, construction of a power storage facility in Czernikowo is planned, in the area of 4 MW photovoltaic farms. The Polish-Japanese hybrid power storage facility with target rated power of 6 MW and energy storage capacity of 27 MWh was completed at Bystra Wind Farm. It is the largest electricity storage facility in Poland, a part of the prototype system designed to improve operational safety of electric grids.

Implementation of smart distribution grid solutions contributes to reduction of carbon dioxide, which supports management of operation of distributed energy sources. Nearly 90,000 RES micro-plants with the total rated power of approx. 620 MW were connected to the Energa Operator network. In 2020, 60,000 installations with the rated power of over 420 MW were connected. Energa Operator actively participated in European activities related to the transformation of the energy market. As part of international co-operation, using the grant from the largest European research programme Horizon 2020, the company undertook actions in two key areas: development of grid flexibility to increase options to connect distributed generation and micro-sources and active involvement of customers and development of local energy communities. To improve grid flexibility and implement flexibility services offered on the energy market, Energa Operator has participated in implementation of two projects, EUuniversal and OneNet. OneNet Project is particularly important - a new model of flexibility services for the entire Europe is being developed in co-operation with PSE and other companies from 15 European states. Two other projects, SERENE and SUSTENANCE, received co-financing in 2020. As part of these projects, solutions for active operation of local energy communities on the energy market will be developed. Their functioning will also affect DSO by offering new options of co-operation in that market. The purpose of the projects is to demonstrate profitable and customer-oriented solutions that effectively integrate various energy media, which will support sustainable development of regional communities based on energy from local renewable sources.

Year 2020 also meant development in the field of organisational governance. The Compliance System which operates within the Group provides a comprehensive view of the Energa Group's compliance with material requirements (at the level of individual companies and the entire organisation) and standardisation of approach to compliance management, to the benefit of all stakeholders of the Group. Implementation of the Compliance System was awarded with Compliance Award 2020, granted by experts in the Compliance sector, and recognized for the model CSR practice in Responsible Business in Poland 2019 report.

On 1 June 2020 Energa SA started the implementation of the ISO 26000 standard. The ESG Division adopted the implementation schedule that provides for completion of the works in 3Q 2021.

PN-ISO 26000 implementation which started in Energa is intended to enhance consistent development of value of the ORLEN Group, which the company is part of. By increasing the awareness of both the employees of the Company and its contractors in terms of social responsibility, operation of the Company and further enhancement of value will be facilitated in the future, starting with building of the Sustainable Development Strategy. ISO 26000 comprises 7 RULES OF SOCIAL RESPONSIBILITY: accountability, transparency, ethical conduct, respect for the interests of stakeholders, respect for the law, respect for international standards of conduct and respect for human rights. PN-ISO 26000 defines corporate social responsibility as the company's responsibility for the impact of decisions of its management board and its daily activities on society and the environment through ethical and transparent business behaviour.



The most important pro-social projects implemented in 2020 included projects related to fighting and counteracting the effects of the Covid 19 pandemic. The actions were pursued by the Foundation Energa and the ESG Division, which is responsible for CSR activities.

Among others, the Energa Foundation provided support to 7 medical centres nationwide, including Szpital Pomorskie Sp. z o.o in Gdańsk, which meant that F. Ceynowa Hospital in Wejherowo fully equipped intensive medical care stations with the necessary defibrillators, highly specialized cardiac monitors, devices for general anaesthesia with a ventilator function and other necessary equipment, purchase of ventilator for the University Clinical Centre in Gdańsk, purchase of personal protective equipment and specialized equipment for the Regional Medical Centre in Białogard, purchase of medical equipment and reagents with materials necessary to perform diagnostic tests for the Central Teaching Hospital of the Medical University of Lodz, purchase of personal protective equipment for the Saint Mother Teresa Hospital in Dębno and the Voivodeship Specialist Group of Healthcare Centres of Lung Diseases and Tuberculosis in Wolica near Kalisz. With our help, the Koszalin University of Technology was able to purchase film for manufacture of protective face shields. The Energa Foundation also donated 50 packs of nitrile gloves and 2,000,000 surgical masks for the Nicolas Copernicus State Hospital in Koszalin.

The ESG Division also actively supported Polish health care services in their fight against the pandemic. Protective clothing for medical personnel was purchased for the Clinic of Obstetrics and Gynaecology of the Institute of Mother and Child in Warsaw. We financed "Breath full of energy" project so that children suffering from cystic fibrosis could benefit from rehabilitation and dietary preventive care. The project covered patients supported by the Polish Cystic Fibrosis Society in Gdańsk. In addition, 26 employees of the Energa Group, who take telephone calls from customers on a daily basis, supported the 24h help line of the National Health Fund launched in connection with the coronavirus.

Together with the Kropelka Energii Foundation, in response to dire shortages of blood in Blood Banks, the Energa Group organised the Second Energy Workers Nationwide Blood Donation Campaign called "Kropelka Energii antyCOVID-19".

Activities supporting the fight against the pandemic were also targeted at residents of care homes, as this group is particularly vulnerable to the negative effects of coronavirus infection. The Energa Foundation supported, among others, Maria Kaczyńska Care Home in Kotlin, Care Home in Młodzieszyn, and Alliance for Żyrardów Association. The ESG Division supported the Brother Albert Aid Society as part of the campaign of Solidarity Convoy for Supporting Seniors announced by Prime Minister Mateusz Morawiecki, Ministry of Family and Social Policy, and Material Reserves Agency. The initiative was aimed at providing food to the poor, homeless and those at risk of social exclusion throughout the country. In addition, the Group was involved in a social campaign entitled "Click online and help in real life. Help us find the homeless." It was aimed at helping people at risk of social exclusion, especially those who do not have a roof over their heads at times as difficult as the pandemic. The campaign was organised by the Gdańsk Branch of Brother Albert Aid Society in co-operation with Energa, City Hall in Gdańsk and Arrels Foundation.

Effective fight and counteracting the effects of the SARS-CoV-2 epidemic, the virus causing the COVID-19 disease, is not only about supporting the medical staff or care homes, but also about helping schools in prevention of digital exclusion of pupils and students. Through co-operation between the Energa Foundation with the Energa Group companies, the Foundation provided schools and hospices with computer hardware comprising 26 laptops, 6 computer monitors, 2 printers and 11 PCs.

As a result of the situation caused by the spread of the SARS-CoV-2 coronavirus, teachers have faced new challenges and must develop their technological skills necessary for remote teaching in an effective and student-friendly way. In response to these needs, Energa and Librus, the leader in the market of electronic newspapers, prepared "Remote education with Energa" project for primary schools, which involved organisation of 300 online training courses on remote teaching, fully financed by Energa. 7,000 headmasters and teachers in Poland were trained. During the training, participants learned about practical and safe tools for conducting online education, such as video-classes. Technological partners, such as Microsoft, CISCO and Google, were involved in the project.

The area of non-financial activities of the Energa Group is very wide and the activities described above performed in 2020 are only the most important elements of this area. All improvements and intensified efforts related to targets and tasks in the ESG and CSR operating area were described in the Report on non-financial information of the Energa Group for 2020 .

In line with the requirements of Article 49b of the Accounting Act, detailed non-financial information can be found in the Report on non-financial information of the Energa Group for 2020 published on the Group's website on 15 April 2021.



Przykona Wind Farm

## Regulatory and business environment

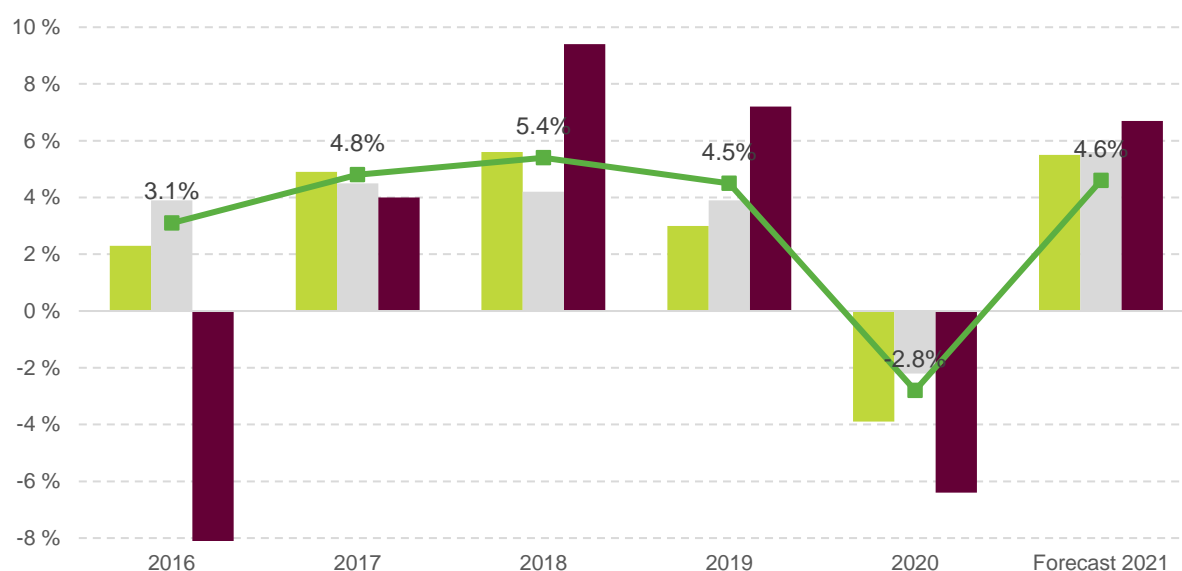
### 3. REGULATORY AND BUSINESS ENVIRONMENT

#### 3.1. Macroeconomic situation

The key operating market for the Energa Group companies is the domestic market. Therefore, market cycles, expressed by means of the rate of GDP changes, inflation, or unemployment rate, have a bearing on the prices of electricity, heat and gas and the development of demand for products supplied to end customers. In 2020, the SARS-CoV-2 virus (coronavirus) pandemic was a significant factor affecting the economy. In the 2021 horizon, return to a stable rhythm of economic life will largely depend on the pace of vaccination and containment of the COVID-19 disease.

According to preliminary estimates from the Central Statistical Office ("GUS"), despite better than forecast macroeconomic data at the end of the year, GDP in Poland shrank in 2020 in real terms by 2.8% y/y, compared to a 4.5% increase in 2019. This annual reading of the index is the lowest ever in the history of economic growth data collected since 1996 and indicates a recession in the economy. The decline in investments in the enterprise sector, which is related to the sector's uncertainty regarding the financial situation and the pace of development of individual markets, had a significant impact on the decline in GDP in Poland. Economists of BNP Paribas Bank expect that this uncertainty will prevent companies from significantly increasing capital expenditures, especially those aimed at increasing production potential. Last year, both domestic demand and consumption in the area of households were significantly lower than in the previous years, which may represent a great potential for growth in consumer spending in 2021.

Figure 6: Annual changes in the GDP, domestic demand, individual consumption and investments



Source: Data from the GUS (January 2021) and forecasts by Santander Bank Polska SA (December 2020)

According to the January forecast of the International Monetary Fund, the expected domestic economic growth in 2021 will amount to 2.7% yoy, so it will not reach the pre-pandemic level. The acceleration is expected in 2022, when analyst forecast a GDP increase by 5.1% yoy. Bank Santander analysts expect a strong rebound in the domestic economy in H2 2021, when mass vaccinations dispel concerns about further waves of the pandemic, and expect a GDP growth of 4.6% yoy. The discrepancies in forecasts are related to the risk of a prolonged pandemic, the further scale of restrictions, and the speed and extent of vaccinations. Analysts of Bank Millennium S.A. argue that the change in consumption habits, a strong fiscal and monetary impulse, as well as solid economic growth in China will contribute to the revival of the global economic situation, also in Poland.

Marketed production between January and December 2020 was 1% lower compared to the corresponding period of 2019, when an increase of 4% was recorded. However, when analysing the monthly data, with the impact of seasonal factors taken out of the equation, the marketed production last December was 7.1% higher than in the corresponding month of 2019 and 0.5% higher compared to November 2020. The better-than-expected result was achieved thanks to resumption of global trade and strong exports. Production of durable consumer goods increased the most (by 30.2% yoy), whereas production of energy-related goods

fell by 2.7% yoy. In 2020, the marketed production rate fell by 1.9% y/y in the segment of production and supply of electricity, gas, steam and hot water.

The epidemiological situation in the country materially impacts the current and future consumer mood and trends in demand. The current consumer confidence index, serving as a summary indicator of current trends in individual consumption, stood at -16.4 in 2020, down by 24.1 pps compared to the corresponding period of the previous year. In turn, the forward-looking consumer confidence index, describing individual consumption trends expected in the forthcoming months, stood at -19.5 in 2020, dropping over one year by 23.5 pps. Negative values of both indices show that there are more pessimistic than optimistic consumers. The country's economic outlook, current prospects for making important purchases and changes in the unemployment rate represented the constituents of the above indices that showed the greatest decline.

As regards the situation on the labour market, the unemployment rate at the end of 2020 was 6.2% and was 1 percentage point higher than the result at the end of 2019. Taking into account the ongoing coronavirus pandemic and the restrictions introduced, especially in the services sector, such a slight difference in the level of the indicator should be interpreted positively, however, it is noticeable that the previously developed trend of improvement in employment was interrupted. Average employment in the enterprise sector from January to December 2020 fell by 1.1% compared to the corresponding period of 2019. The average monthly (gross) salary in 2020 grew by 4.7% yoy to PLN 5,411.45. Analysts claim that along with the improvement in activity and lifting of economic restrictions in 2021, the demand for labour will grow, which will be the basis for a rebound in consumption.

Slight revival in the Polish manufacturing sector is reflected in the PMI index (the forward-looking index of the Polish industry), which was 51.7 at the end of 2020. In H1 2020, this indicator remained below the threshold of 50 points that defines the level of economic recovery, however, from July 2020, there was an improvement in economic conditions in the Polish manufacturing sector, and index readings were higher than the average value resulting from long-term surveys. IHS Markit pointed out that the increase in the PMI index last December was due to the increased demand for Polish industrial products, as reflected by the increase in new orders. Despite this growth, the Polish industrial production fell for the second consecutive month as businesses struggled with workforce shortages and delays in the supply of raw materials. As a result, the production backlog increased and the stocks of finished products were depleted.

In December 2020, there was also an increase in the cost pressure of production, with the pace of inflation being the fastest since April 2011. The price increase was mainly due to the situation in the metals and wood markets, weaker performance of Chinese suppliers and poorer availability of raw materials. Higher production costs were partially passed on to customers, which was reflected in the increase in the prices of finished products.

The consumer price index in the period from January to December 2020 was 3.4% compared to the corresponding period of the previous year. Consequently, it remained within the upper range of deviations from the inflation target set by the Monetary Policy Council (RPP), i.e. 2.5% +/- 1 pp. Higher prices were recorded for goods (by 2.1% yoy), and services (by 6.9% yoy). A 4.9% price growth y/y was reported for energy carriers (electricity, gas, firewood and heat energy). According to forecasts by analysts of Santander Bank, core inflation (excluding food and energy prices) this January may rise slightly, followed by a series of significant declines. As a result, it may fall below 2% yoy in the middle of the year, and slightly above 1% yoy at the end of the year.

In terms of monetary policy, in 2020 the Monetary Policy Council lowered the level of basic interest rates three times, by a total of 1.4 percentage points. These changes took place in the first half of last year. The main interest rate of the National Bank of Poland (NBP), the reference rate, was 0.10% at the end of 2020. The market is divided as to a further reduction in interest rates in 2021, although the President of the NBP indicated that possible circumstances and potential effects of such a move were being analysed. According to the statement released after the January meeting of the Council, the NBP will continue to purchase Treasury securities and debt securities guaranteed by the Treasury on the secondary market as part of structural operations of the open market. The purpose of these operations is to change the long-term liquidity structure in the banking sector, assure liquidity of the secondary market for purchased securities and to strengthen the impact of NBP interest rate reductions on the economy, i.e. the monetary transmission mechanism. The NBP may also intervene in the foreign exchange market in order to strengthen the impact of loosening monetary policy on the economy. The NBP will also continue to offer promissory note credit for the refinancing of loans granted to enterprises by banks. The NBP monetary policy mitigates the negative effects of the pandemic, supports economic activity and stabilizes inflation at a level consistent with the NBP's medium-term inflation target. It contributes to the strengthening of stability of the financial system through a positive impact on the financial standing of borrowers. The main risk factors include the further course of the COVID-19 pandemic in Poland and worldwide, the scope and durability of economic policy measures to mitigate the negative effects of the pandemic, change in economic behaviour and the scale and structure of household and corporate expenditure, trade policy of the United States and China and changes in prices of assets and raw materials on global markets, among others prices of energy raw materials, mainly oil, and agricultural raw materials.

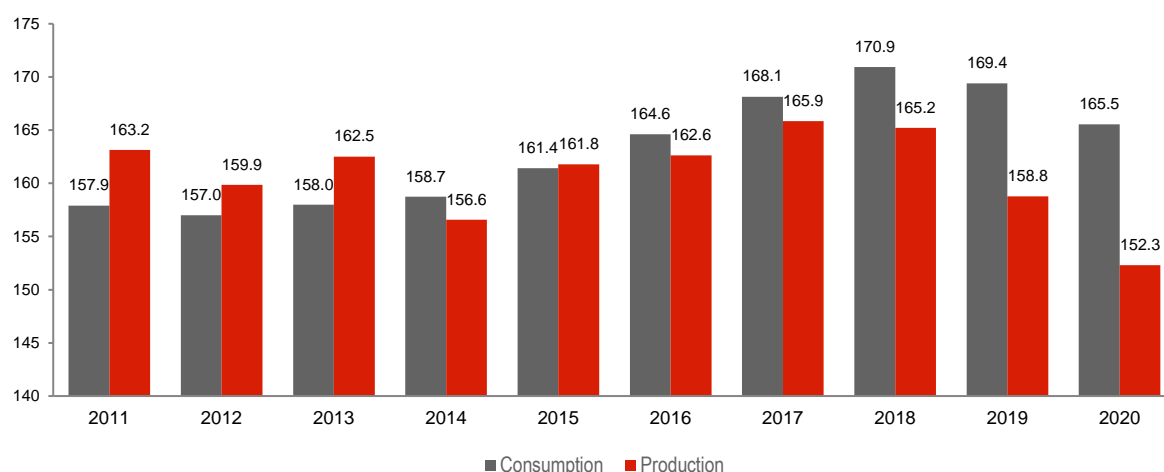
### 3.2. Electricity market in Poland

Developments in the market environment are of key importance for the financial performance of the Group. In this context, particular attention should be paid to price quotations for electricity, property rights, CO<sub>2</sub> emission allowances and coal (as a basic fuel for production in the Polish power generation system). Furthermore, the Group's results were determined by the regulatory mechanisms of the market, such as the Operating Reserve, as well as non-regulatory factors, e.g. weather conditions, in particular hydrometeorological and wind conditions. It is impossible to disregard the COVID-19 pandemic and its impact on a short-term drastic decrease in demand for energy and the drop in its prices at the turn of Q1 and Q2 2020. The second wave of the pandemic which started in autumn 2020 did not affect energy demand so much, and the demand even grew compared to the same period of the preceding year.

#### Domestic production and consumption of electricity

According to data published by PSE, electricity consumption in Poland in 2020 declined by 3.9 TWh (2.3% yoy) compared to 2019, to 165.5 TWh. Production corresponded partially to the declining consumption and fell by 6.5 TWh in relation to 2019 to 152.3 TWh. These changes resulted in an increase in energy imports.

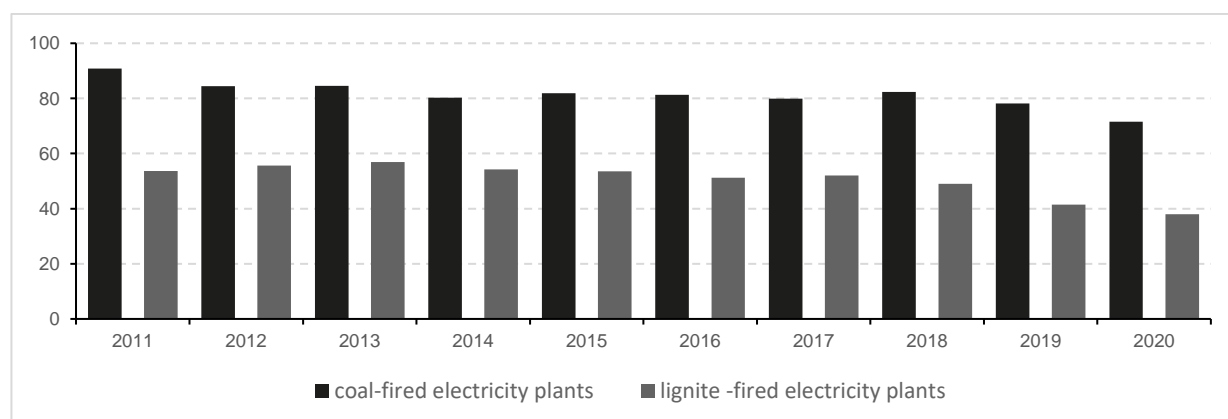
Figure 7: Production and consumption of electricity in Poland in 2011-2020 (TWh)



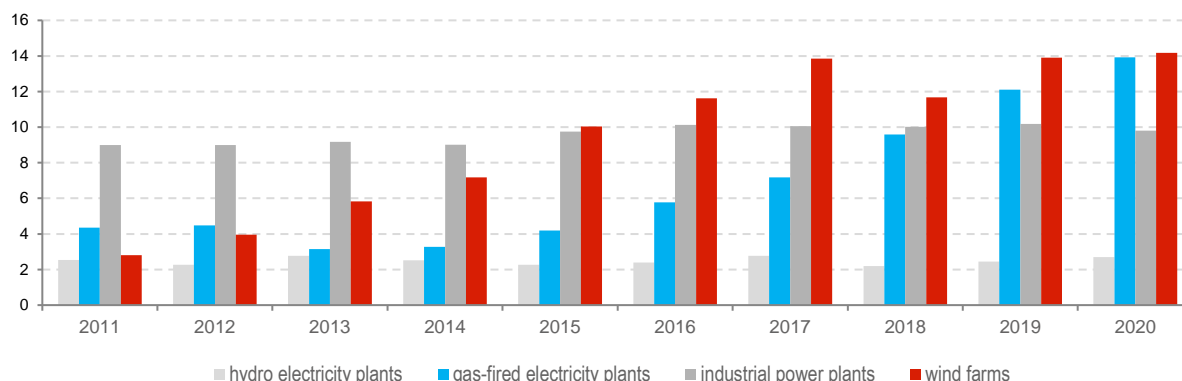
Source: PSE

In 2020, production of energy in wind power plants increased again. The share of wind energy in the generation mix was approx. 9.4%, and the production of electricity by wind farms grew by approx. 1.9% in relation to 2019. Increased production of wind power plants was attributable to improved wind conditions rendering the entire year 2020 one of the windiest years of the few previous years.

Figure 8: Power generation mix in Poland in 2011-2020 (TWh)







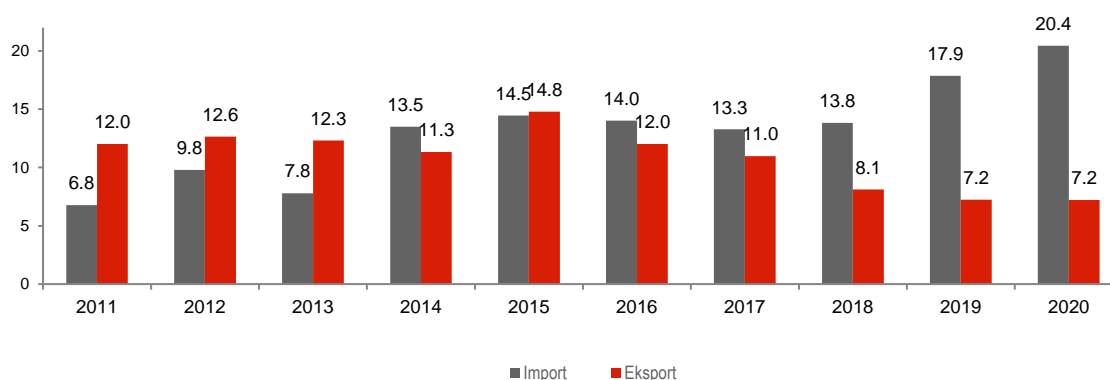
Source: PSE

Coal-fired main activity producer electricity plants had the highest share in the power generation mix last year. They accounted for 47.7% of the total production, while the share of lignite-fired main activity producer electricity plants was 25.3%. The highest increase in production in percentage terms in 2020 was recorded by gas-fired main activity producer electricity plants, where generation increased by 15% y/y to 13.9 TWh. At the same time, the importance of photovoltaic sources in the national energy mix is growing owing, among other things, to RES auctions and the launch of the "My current" government programme.

### Poland's cross-border power exchange

Electricity import increased in 2020 by more than 2.5 TWh relative to the preceding year, while export was maintained at the level similar to that of 2019, which can be explained by the persistently high demand for electricity accompanied by a sharp decline in production down to 152.3 TWh. Additionally, high consumption of energy from Sweden was reported in 2020 in spite of renovation of an inter-connector between Poland and Sweden in January, February and September 2020. Import growth in relation to 2019 was driven primarily by increased power flow volumes along parallel exchange lines.

Figure 9: Annual cross-border power exchange volumes in Poland 2011-2020 (TWh)



Source: PSE

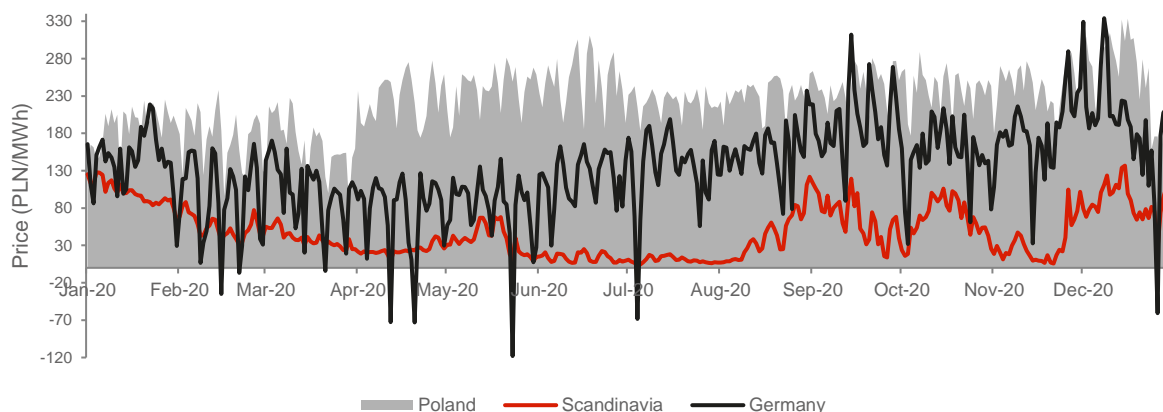
### Energy prices in selected countries neighbouring with Poland

In order to compare electricity prices in Poland against prices in neighbouring countries, SPOT market prices were used as a reference product. The price level in Poland was substantially higher than in the neighbouring countries compared to previous years. The highest price differences were found in comparison to the Scandinavian market (+363.13%, or PLN 175.19/MWh), and lower differences were identified in comparison to the German market (+64.94%, PLN 87.97/MWh). A considerable increase in prices in the Polish market, unlike the direction of price changes on the neighbouring markets, was mainly attributable to the



increase in prices of EUA emission allowances. Production of energy in Poland is mainly based on carbon-intensive generating units which require purchase of EUA. The fast trend in increase in prices in the Polish market compared to the neighbouring countries was particularly apparent after the first wave of the COVID-19 pandemic, which took place at the turn of Q1 and Q2. In addition, lower prices in the Scandinavian or German markets are due primarily to large installed capacities in renewable energy sector, mostly offshore and onshore wind farms and photovoltaics where high energy generation definitely contributed to a decrease in prices in those countries.

Figure 10: Prices of energy in the SPOT market in Poland and in neighbouring countries in 2020 (PLN/MWh)

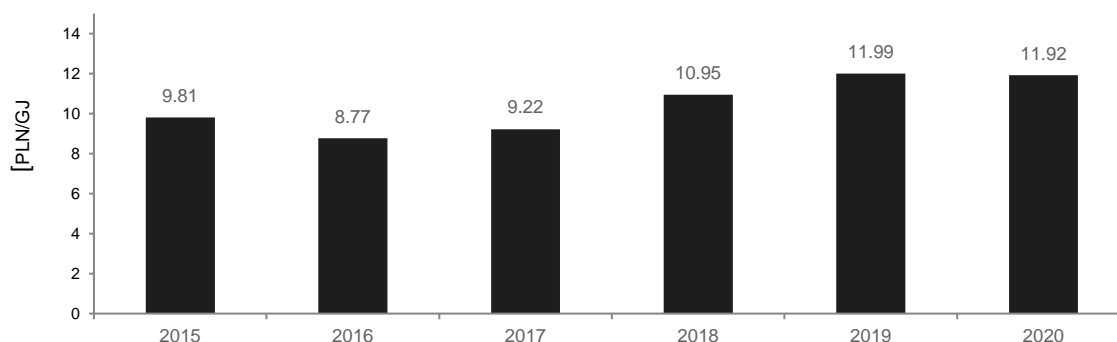


Source: Bloomberg, Reuters

### Coal prices in Poland

Over the recent years, a consistent decline in coal prices has been observed in Poland, driven by a global factor – the global decline in the price of this commodity and the oversupply of coal in Poland. The downward trend reversed on the global markets in 2016, when the prices skyrocketed. In 2019, coal prices quoted at main transshipment ports (ARA, Newcastle, Richards Bay) declined substantially and continued until mid-2020. In connection with promotion, especially in Europe, of low- and zero-emission power generation, demand is shrinking for coal which is displaced from the energy mix mainly by wind, photovoltaic and gas power plants. Use of coal in the energy sector was not helped by the lockdown in global economy, which reduced demand for energy. In the Polish market, selling prices of coal for main activity producer and industrial power generation have risen considerably since mid-2020 and then began to fall slightly, a trend opposite to those prevailing in international markets. The negative impact of this factor on the performance of the Energa Group was limited.

Figure 11: Prices of coal including cost of transport for coal-fired power plants at year-end in 2015-2020 (PLN/GJ)

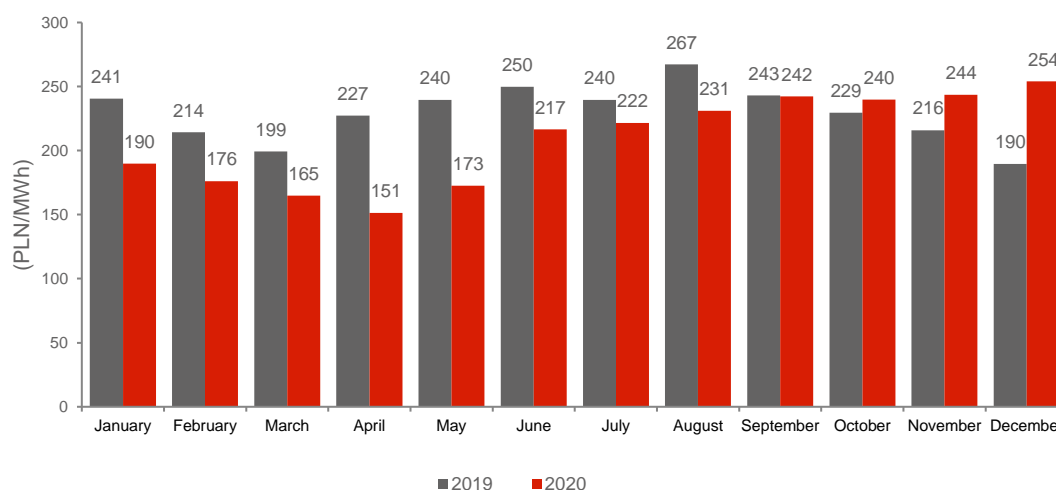


Source: Polski Rynek Węgla

## Day-Ahead Market of electricity in Poland

The average TGeBase index for 2020 was PLN 208.84/MWh and was PLN 20.90/MWh lower than in 2019 (PLN 229.74/MWh). The drop in demand for energy connected to the first wave of COVID-19 epidemic and economic restrictions imposed that caused substantial economic slowdown was the main determinant of price decrease compared to 2019. The domestic demand for power that began to revive in the second half of the year, supported by the increase in prices of CO<sub>2</sub> emission allowances and high coal prices did not result in an increase in prices above 2019 prices.

Figure 12: Prices of the TGeBase index from 2019 to 2020 (PLN/MWh)



Source: TGE

The highest average monthly price for electricity on the commodity market was recorded in last December, when the average TGeBase index stood at PLN 254.01/MWh. The minimum was observed in April 2020 at PLN 151.23/MWh.

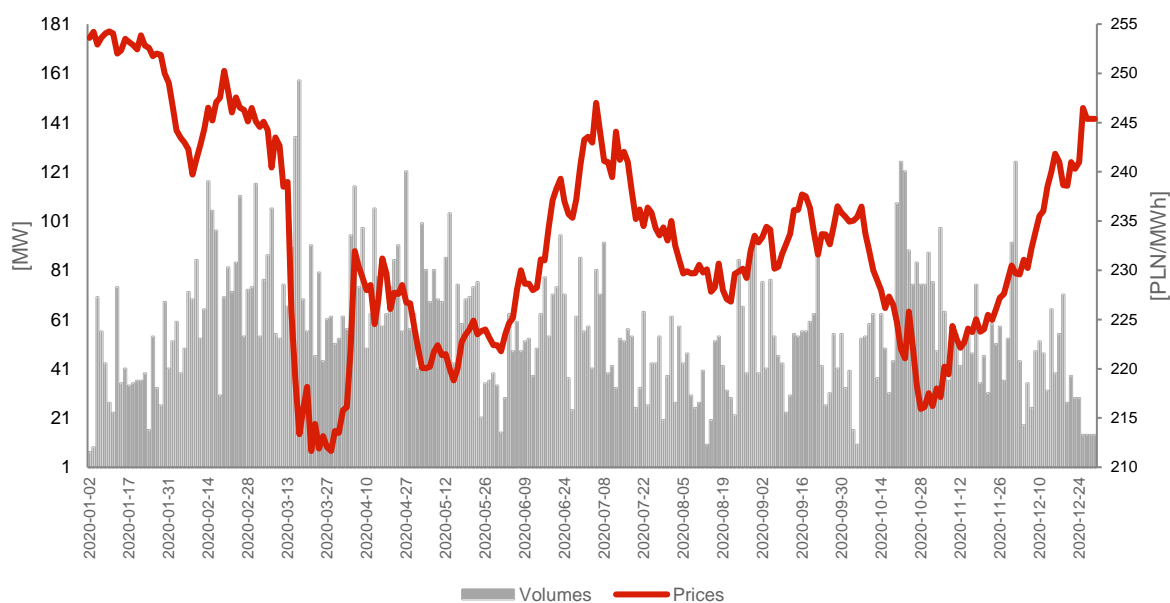
## Electricity futures market in Poland

In order to assess the futures market in Poland, a one-year base-load future contract for 2021 (BASE 2021) has been selected as a reference product. In 2020, the level of prices under that contract showed significant volatility and lower levels in relation to 2019, reaching peak quotations in January at PLN 254.26/MWh. Thereafter, the price started to plummet, following the first wave of the COVID-19 pandemic that restricted economic activities. The slowly reviving economy, and thus the increase in demand for energy, supported by the news about invention of effective vaccines against COVID-19 in Q4, resulted in end year result of PLN 245.38 per MWh. The trend on the futures market is particularly important from the perspective of the Group's contracting process for the next year.

The main determinants of the energy price increase in the future market from the turn of Q1 and Q2 were:

- the increase in prices of CO<sub>2</sub> emission allowances, mainly in connection with the agreement between EU leaders on the increase in the level of greenhouse gas emission reduction in 2030 from 40% to 55% and invention of effective vaccines against COVID-19, uncertainty surrounding the United Kingdom's exit from the European Union and the country's continued presence in EU ETS system,
- reaching of the terms and conditions of the Brexit Agreement and reports that Great Britain established its own system of emission allowances that is compliant with the ETS system,
- an increase in coal prices on global markets,
- high level of system losses,
- growing demand for electricity in the National Power System, showing increased levels since September compared to the previous year.

Figure 13: Base-load electricity futures price with delivery in 2021



Source: TGE

## Emission allowance market

On 8 May 2020, the European Commission informed that the number of emission allowances as at the end of 2019 exceeded 1,385 billion, which is the basis for defining the Market Stability Reserve (MSR) of the EU Emissions Trading System (EU ETS), a mechanism launched in January 2019. Therefore, the volume of auctions between September 2020 and August 2020 is reduced by over 332 million allowances. Over the initial 5 years of the functioning of the MSR, the number of allowances is to be reduced annually by 24% of the total number of allowances in the auction pool. The key factor that determined the price of EUAs in 2020 was the impact of the COVID-19 pandemic. In Q1 2020, increased temperatures, very high wind power generation in Europe and restrictions imposed in connection with the COVID-19 pandemic contributed to a decrease in the consumption of fossil fuels, which translated into a lower demand for emission allowances. Economic lockdown measures were lifted in Q2 2020, which drove a recovery of demand for electricity and increased consumption of fossil fuels. In Q3 2020, the rate increased on the back of market projections predicting possible increases in emission prices in the coming years, and a debate was resumed to increase the emission reduction target to 50-55% by 2030. In Q4 2020 the impact of the second wave of the COVID-19 pandemic was restricted by speculations and the final agreement among leaders of EU Member States on the increase in the level of greenhouse gas emission reduction in 2030 from 40% to 55% and information about invention of effective vaccines against COVID-19. Despite an increase in the EUA rate in Q4 2020 to record high levels, the average price for 2020 (EUR 24.49/t) is slightly lower than the 2019 average price (EUR 24.87/t).

Figure 14: Prices for emission allowances (EUA DEC 2020) in 2020



Source: Bloomberg

## Market for property rights

The table below presents the average prices of property right indices listed on the Polish Power Exchange.

Table 2: Average price levels of green property rights listed on the Polish Power Exchange

Index (type of certificate)	Index value		% obligation (%)	Substitution fee (PLN)
	2019 (PLN/MWh) with 2019 index	2020 (PLN/MWh) with 2020 index		
OZEX_A (green)	131.56	137.5	19,5*	300,03*

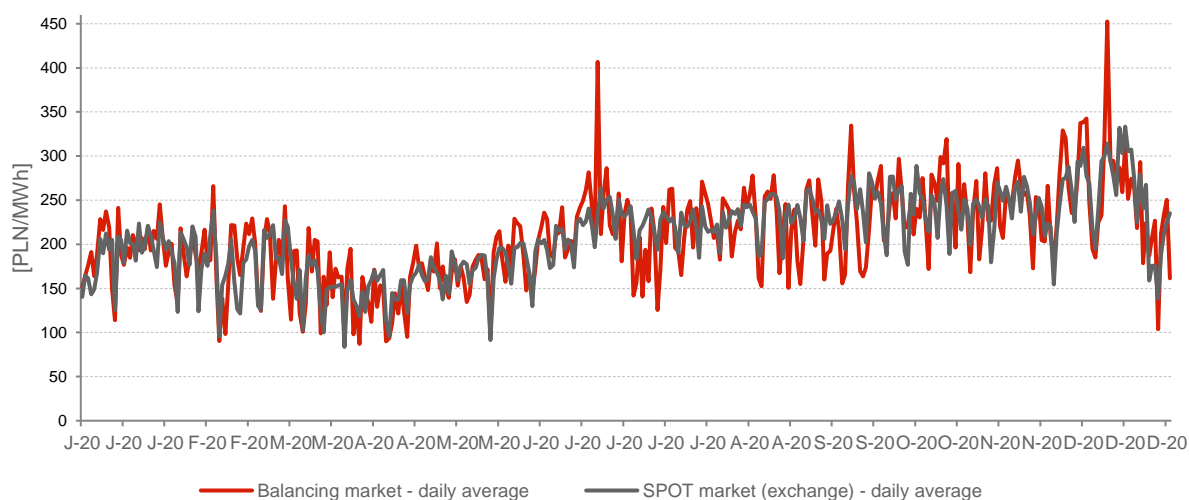
\* value of the substitution fee and redemption obligation for 2020.

From the perspective of the Group's generation mix (its high share of RES), the prices of green property rights are of key importance. PM RES prices in EOB trades throughout the prevailing part of 2020 stayed above PLN 140/MWh with low volatility, closing 2020 at PLN 141.63/MWh. The volume of PM RES issued grew to 21.78 TWh, which is an increase by 6.8% compared to 2019.

## The balancing market and the SPOT market

The figure below shows the average daily prices for electricity on the balancing market and SPOT market.

Figure 15: Comparison of prices on the balancing market and SPOT market (exchange) in 2020 (PLN/MWh)



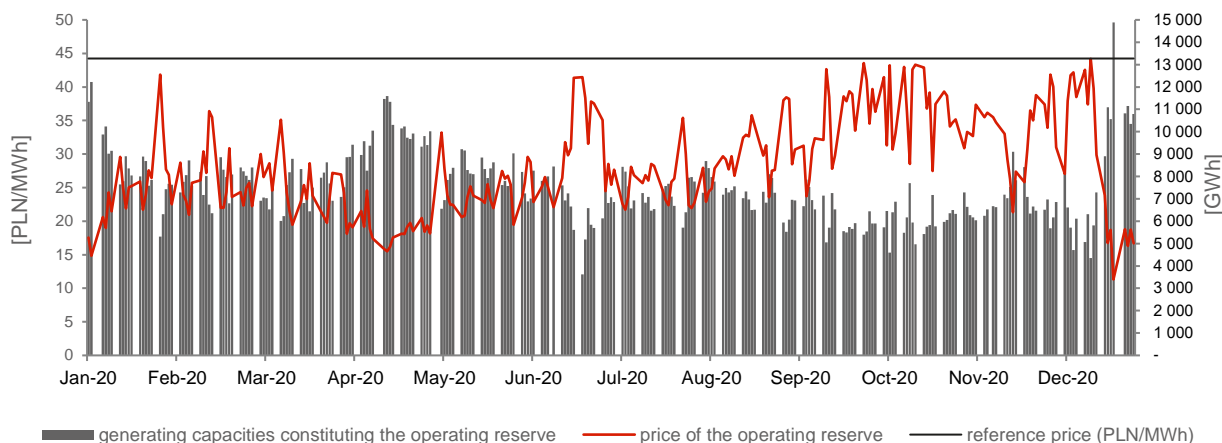
Source: PSE

In 2020, the limits for electricity clearing prices on the balancing market were maintained in the range from PLN -50,000.00/MWh to PLN +50,000.00/MWh. In 2020, differences in prices on the balancing market and prices for instruments traded on the SPOT market were mostly attributable to strong variations in the wind generation output, "COVID" fluctuations in domestic demand for power and decommissioning in Poland and Western Europe. The average price level in 2020 on the balancing market was PLN 208.17/MWh vs. PLN 234.98/MWh in 2019.

## Operating reserve

The operating reserve was included in the catalogue of system services provided to PSE from the start of 2014. The operating reserve was composed of generating units which had spare capacities not covered by contracts for electricity. From 2021 the operating reserve will be replaced by the Capacity Market.

Figure 16: Prices and generating capacities constituting the operating reserve in 2020



Source: PSE

The operating reserve (OR) service was continued in 2020, although its volume changed slightly in relation to the preceding year. The reference price was raised to PLN 44.24/MWh. The average operating reserve fee in 2020 was PLN 28.31/MWh, a decrease by PLN 5.39 compared to the corresponding period of the previous year (PLN 33.70/MWh).

## 3.3. Regulatory environment

### Legislative processes handled and addressed in 2020

Table 3: Overview of legislation having a material effect on the Group

Legal act	Description and purpose of the regulations
<p>Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment (or Taxonomy). Entry into force: 5 July 2020.</p> <p>(1) in respect of the environmental objectives referred to in points (a) and (b) of Article 9, by 1 January 2022; and</p> <p>(2) in respect of the environmental objectives referred to in points (c) to (f) of Article 9, by 1 January 2023.</p>	<p>The Regulation establishes the framework for determining whether an economic activity qualifies as environmentally sustainable. It introduces, <i>inter alia</i>:</p> <p>(1) harmonised and transparent financing principles and support criteria for green projects;</p> <p>(2) provisions to prevent the financing of projects (EU funding) involving carbon-intensive technologies.</p>
<p>Commission Implementing Regulation (EU) 2020/1294 of 15 September 2020 on the Union renewable energy financing mechanism. Entry into force: 7 October 2020</p>	<p>The regulation sets out provisions necessary for the implementation of the Union renewable energy financing mechanism. It enables, <i>inter alia</i>:</p> <p>(1) support for new renewable energy projects in the Union with the aim of covering a gap in the indicative Union trajectory;</p> <p>(2) contributing to and enabling framework supporting renewable energy deployment across the Union.</p>

## Energa SA's Management Board Report on the activities of the Energa Capital Group and Energa SA in 2020

Regulation of the Minister of Climate and Environment of 9 November 2020 on the detailed method of charging the capacity fee (Journal of Laws of 2020, item 2009).	<p>Performance of the statutory obligation.</p> <p>Implementation of the Regulation is the last step before the capacity fee comes into effect on 1 January 2021. Under the Regulation, on 19 November 2020 the President of the Energy Regulatory Office published selected hours during the day with peak demand for electricity in the system and will calculate the capacity fee rates for 2021.</p>
Regulation of the Council of Ministers of 16 December 2020 on the maximum volume and value of electricity from renewable energy sources that may be sold at an auction in 2021.	<p>The objective of the Regulation is to set out the necessary provisions for announcing and carrying out renewable energy auctions.</p> <p>Key assumptions:</p> <ul style="list-style-type: none"> <li>(1) no support for existing and upgraded renewable energy installations;</li> <li>(2) the total estimated volume of energy for auction sale in 2021 is 69.6 TWh in the 15-year period of support. The total maximum value of the aforesaid volumes is approximately PLN 25 bn.</li> </ul>
Regulation of the Minister of Climate and Environment of 11 November 2020 amending the Regulation laying down the specific conditions of functioning of the electricity system	<p>The objective of the regulation is to amend the provisions on, inter alia:</p> <ul style="list-style-type: none"> <li>(1) functioning of the electricity Balancing Market;</li> <li>(2) electric grid connections;</li> <li>(3) the possibility of active participation for subsequent electricity system users, considering the specific nature of each group of entities;</li> <li>(4) establishing new rules for the determination, calculation and updating of some key prices used in the Polish BM model;</li> <li>(5) extending the possibility of creating active scheduling units for various technologies;</li> <li>(6) adapting the BM requirements to the specific requirements of units other than centrally dispatched generating units (large baseload generators).</li> </ul>
Regulation of the Minister of Climate and Environment of 13 November 2020 amending the Regulation setting out the specific rules of structuring and calculating tariffs and billings in electricity trading	<p>The objective of the regulation is to amend the provisions on, inter alia:</p> <ul style="list-style-type: none"> <li>(1) the possibility of setting up a tariff group for connected recipients who use electricity for the sole purpose of the functioning of a public charging station and provision of charging services by means of that public charging station;</li> <li>(2) a mechanism to include differences between actual revenue of electricity system operators and planned revenue of electricity system operators arising from the tariffs approved for the year concerned in the regulatory account balance in the tariffs of those operators;</li> <li>(3) the option for end users to receive electronic invoices for electricity and to receive electricity billing information electronically;</li> <li>(4) the possibility of making settlements with end users exclusively by electronic means.</li> </ul>

### Regulatory issues handled in 2020 and continuing in 2021

Table 4: Overview of legislation with a potential material effect on the Group

Legal act	Description and purpose of the regulations
<p><b>Government bill to amend the Energy Law and certain other acts.</b></p> <p>Parliamentary print No 808.</p>	<p>Harmonization of the Polish law with EU regulations in terms of smooth operation of the smart metering system in the power sector.</p> <p>With this regulation, it will be possible to expand the possibilities to use mechanisms supporting generation of electricity from RES, specifically photovoltaics and hydro power.</p> <p>The bill partially incorporates the changes to the capacity market that were to be proceeded as part of amendment to the Act on the Capacity Market, the work on which was suspended in Q4 2020. Key changes designed as part of this Act pertain to AMI deployment schedule, energy storage facilities, and change of the method of calculating penalties for failure to achieve Operational Milestone on the capacity market.</p>
<p><b>Proposal for a Regulation of the European Parliament and of the Council establishing the Just Transition Fund.</b></p> <p>COM/2020/22 final.</p>	<p>The purpose of the Fund is to provide support to territories facing serious socio-economic challenges deriving from the transition process towards a climate-neutral economy by 2050.</p> <p>The resources of the Fund are to be allocated to zero-carbon energy projects (excluding natural gas, for instance in regions that are highly dependent on coal production and combustion) and other projects, such as micro-enterprises, sustainable tourism, social infrastructure, universities and public research institutes, energy storage technologies, low-carbon district heating, smart and sustainable mobility, digital innovations, and projects to combat energy poverty.</p> <ul style="list-style-type: none"> <li>(1) On 20 July 2020, the European Council announced an agreement on the EU budget for 2021-2027 and the recovery plan, including resources for the Just Transition Fund;</li> <li>(2) On 16 September 2020, the European Parliament (EP) adopted its position on the matter, calling for increasing the allocation to the Fund from the EU budget for 2021–2027 to EUR 25 bn (2018 prices). The European Commission proposed EUR 11 bn, and the European Council reduced this allocation to EUR 7.5 bn. Poland will receive from EUR 2 billion to EUR 3.8 billion from this pool. The Parliament believes that this amount should be supplemented by EUR 32 billion at current prices, as proposed in the EU instrument for economy revival;</li> <li>(3) Poland is expected to receive as much as 35% of the final allocation.</li> </ul>



**Energa SA's Management Board Report on the activities  
of the Energa Capital Group and Energa SA in 2020**

<p>Bill to amend the Act on the system for greenhouse gas emission allowance trading and certain other acts (pertaining mainly to the Modernisation Fund (MF)).</p>	<p>This bill lays down, among other things, provisions aimed at establishing an operator for the distribution of resources from the Modernisation Fund (MF) in Poland, which is to operate between 2021 and 2030.</p> <p>The priority areas for support are:</p> <ol style="list-style-type: none"> <li>(1) investments in networks of energy distribution;</li> <li>(2) development of renewable energy sources;</li> <li>(3) energy storage;</li> <li>(4) energy efficiency.</li> </ol> <p>The Modernisation Fund active from 2021 to 2030 will use funds earned from the sales of 2% of the total pool of CO<sub>2</sub> emission allowances. This is the result of negotiations concerning changes to the EU ETS system.</p> <p>The Polish pool from the Modernisation Fund depends on the price of CO<sub>2</sub> emission allowances. The estimated pool will range from EUR 2 billion to EUR 4.8 billion.</p> <ol style="list-style-type: none"> <li>(1) Narodowy Fundusz Ochrony Środowiska i Gospodarki Wodnej (the National Fund for Environmental Protection and Water Management) will play the role of the Polish operator of MF resources;</li> <li>(2) Priority investment projects may seek funding up to 100% of eligible costs. Non-priority investment projects can obtain up to 70%.</li> <li>(3) The European Investment Bank, as the European MF operator, has the right to challenge the project list or a part of the project list as being non-compliant with the provisions of Directive (EU) 2018/410 of March 2018, which sets out the objective of the Fund.</li> </ol>
<p><b>Proposal for a Regulation of the Minister of Climate and Environment laying down the method of determining the connection capacity for indoor and outdoor parking spaces associated with public utility buildings and residential multi-family housing. Number on the list: 10.</b></p>	<p>The objective of the Regulation is to set out how to determine the minimum connection capacity to supply indoor and outdoor parking spaces associated with public utility buildings and residential multi-family housing. Pursuant to the specific new regulations, it is the responsibility of the Distribution System Operator to incur capital expenditure on upgrading and new distribution grids.</p>
<p><b>The Act on investment projects preventing the effects of drought. Number on the list: UD101.</b></p>	<p>The objective of the Act is to introduce solutions to the legal system that will enable the simplification and acceleration of work relating to the preparation for execution of water retention projects aiming at mitigating the effects of drought in Poland (applicable also to facilities and areas used for hydropower purposes).</p> <p>As a result of the change in the manner and rate of calculating the fee for water drainage, the cost of water drainage from storage yards, car parks, internal roads etc. is likely to increase.</p>
<p><b>Updated Draft Energy Policy of Poland until 2040 (PEP 2040)</b></p>	<p>The assumptions introduced in the updated draft Energy Policy of Poland until 2040 provide for, among others:</p> <ol style="list-style-type: none"> <li>(1) goal of RES energy share in Poland in 2030 defined in the range of 21-23% instead of 21%;</li> <li>(2) goal of RES energy share in Poland in 2040 forecast at 28.5%;</li> <li>(3) share of coal in production of electricity defined in the range of 56-60%;</li> <li>(4) launch of the first units of the nuclear power station planned for 2033 - 2043 (6 nuclear units with the total capacity of 6-9 GW);</li> <li>(5) rate of improvement in energy-efficiency by 23% in 2030 compared to 2007;</li> <li>(6) reduction of CO<sub>2</sub> by 30% by 2030 in relation to 1990.</li> </ol> <p>The forecast presented in the draft document slows down some directions of modernisation of the energy sector (e.g. development of gas installations), with a relatively constant level of installed capacity at onshore wind power stations being maintained (the previous draft assumed a decline), and presented a series of initiatives aimed at minimising adverse effects of energy transformation in Poland. Coal energy will continue to be a crucial element of the national energy mix until 2030.</p> <p>Note: At the European Council summit which took place from 10 to 11 December 2021, Member States approved binding EU goal assuming restriction of net emissions of greenhouse gases in the EU by 2030 by at least 55% compared to 1990 levels.</p> <p>This will certainly be one of the key factors to change the final assumption and shape of the Energy Policy of Poland until 2040.</p>
<p><b>Pre-consultation as part of work carried out by the Ministry of Economic Development and Ministry of Climate and Environment to amendment of the Act on Investments in Wind Power Stations regarding the so-called distance principle / 10H</b></p>	<p>The goal is to build more onshore wind farms and unfreeze certain projects halted as a result of adoption of 2016 regulations.</p>
<p><b>Governmental bill on promotion of generation of electricity at offshore wind farms. Parliamentary print No 809.</b></p>	<p>The bill concerns increasing the share of renewable energy sources in the national energy mix by introducing the system of support and administrative and legal improvements, enabling a more effective investment process in the field of offshore wind farms.</p>

<p><b>Regulation establishing the framework for achieving climate neutrality and amending Regulation (EU) 2018/1999, (European Climate Law) (COM (2020) 80 final 2020/0036 (COD)).</b></p>	<p>The Regulation sets out a binding target for climate neutrality, which includes reducing greenhouse gas emissions to a net zero level by 2050 (compared to 1990) at the level of the entire European Union and obliges the European Parliament, the Council, the European Commission and the Member States to introduce EU and national measures necessary to achieve this goal.</p> <p>According to the provisions of the Regulation, by September 2020 the European Commission (EC) is to assess the EU's 2030 climate target to reduce greenhouse gas emissions by at least 40% compared to 1990, in the light of the goal of achieving climate neutrality by 2050. In particular, the European Commission will examine the possibilities of setting the 2030 climate target at a 50-55% reduction in emissions compared to 1990 and will consider adopting relevant legislative proposals in this regard.</p>
--	--

### 3.4. Description of the Group's position in relation to other energy groups

The Energa Group, part of the ORLEN Group, is one of the four largest vertically integrated energy groups operating in Poland. The groups operate in separate geographies with respect to their electricity distribution territories. The distribution territory of the Energa Group covers the northern and central part of Poland.

Figure 17: Distribution territories of top energy groups



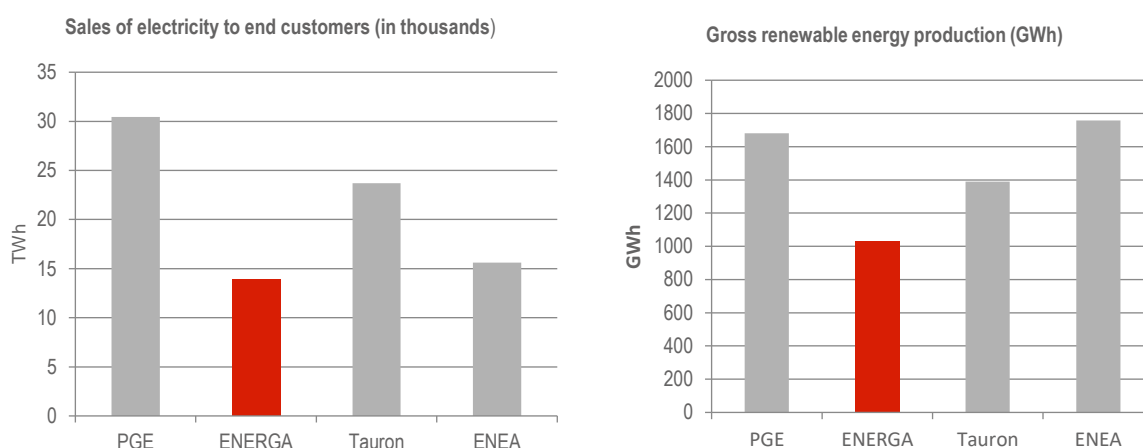
In the Distribution Segment, the Energa Group ranks third after the PGE Group and the Tauron Group in terms of the volume of electricity supplied, network length and number of customers. Owing to intensive upgrading efforts, the Energa Group's network quality indicators are among the best in Poland and are continually improving.

For historic reasons, the coverage of the distribution networks is correlated with the number of customers in the Sales Segment. In this respect, the Energa Group ranks fourth. Sales by value to end customers is more volatile than the number of customers, depending on the commercial strategy chosen for the largest users. Over the first three quarters of 2020, the Energa Group ranked fourth in terms of sales volume, outperformed by PGE, Tauron, and slightly by Enea. There was a fall in the volume of sales compared to the same period of the preceding year in all energy groups except Enea. The main factor which

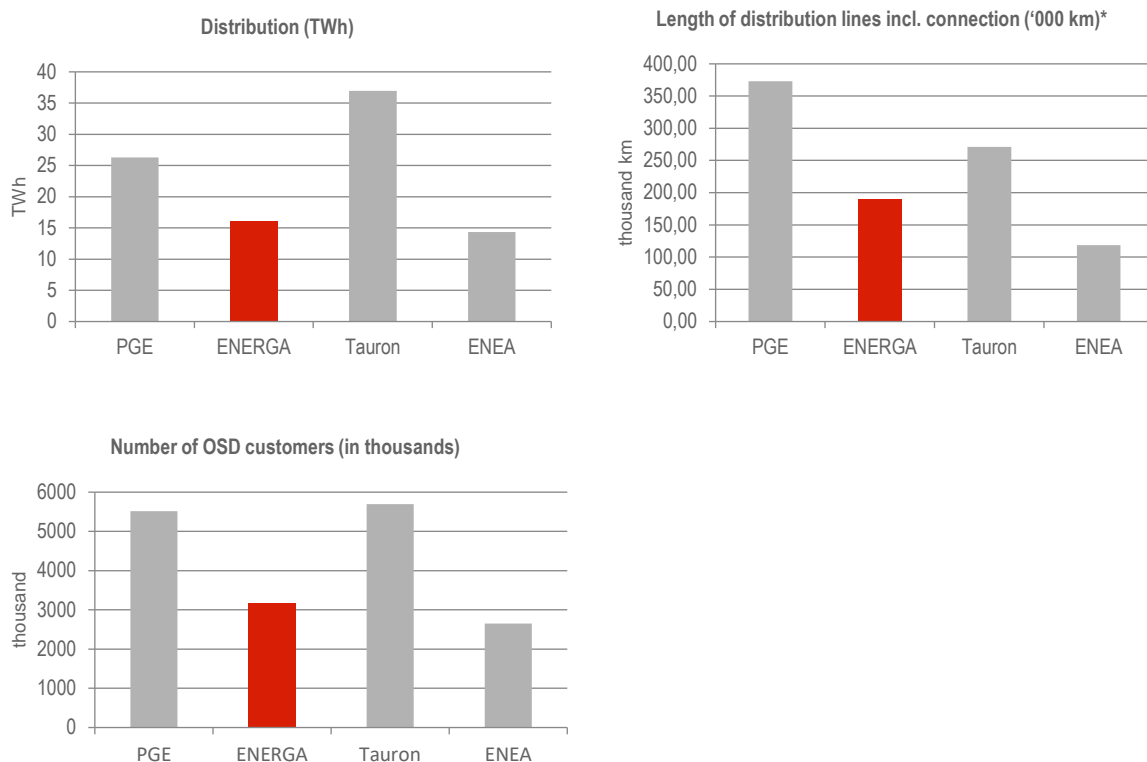
caused this was the economic lockdown introduced in response to the spread of the COVID-19 pandemic.

Compared to the other groups, the Energa Group has a low share in conventional generation. The company has a single baseload unit with a generating capacity of 690 MWe (the Ostrołęka B Power Plant). This is significantly less than what the other groups have. In terms of energy production from RES, its share in own energy mix is the highest in the Energa Group among those audited and amounts to over 40%.

Figure 18: Comparison of operating data for the Energa Group and the other energy groups (data from Q1 to Q3 2020)<sup>2</sup>



<sup>2</sup> The figures representing sales of electricity to end customers for ENEA include the sales of natural gas.

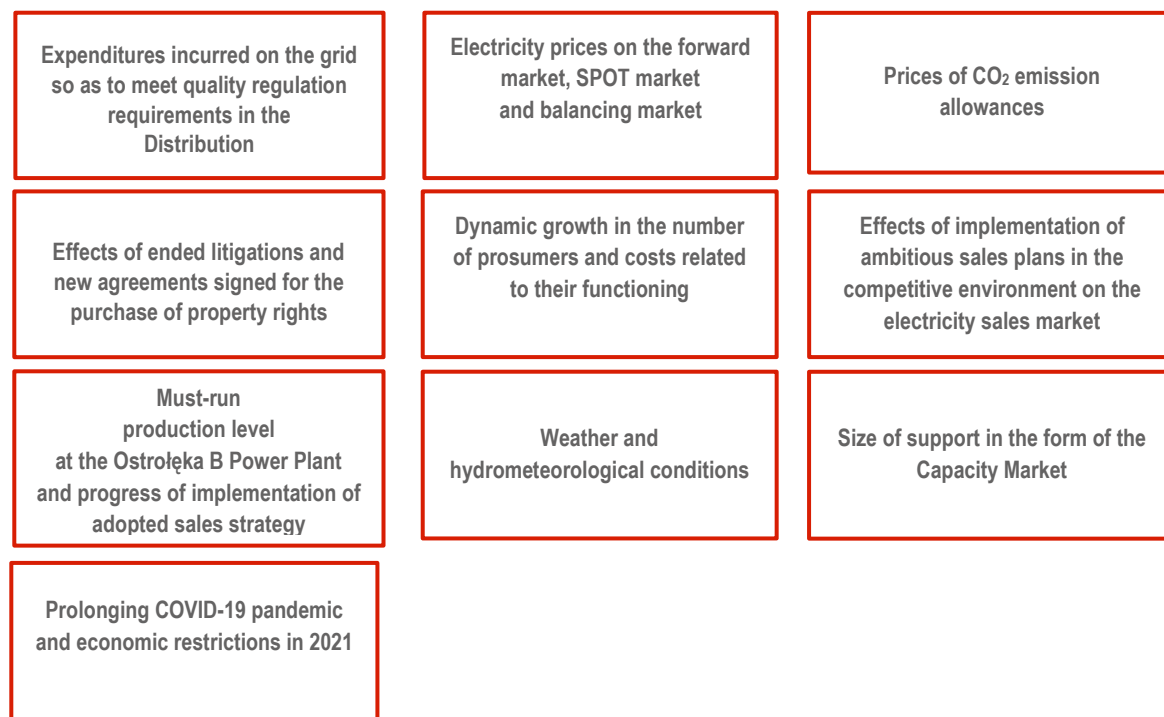


\*PTPIREE data, end of 2019

### 3.5 Factors relevant to the development of the Energa Group

In the opinion of the Management Board of Energa SA, the factors described below will affect the results and activities of the Company and the Energa Group at least throughout 2021:

Figure 19: Factors relevant to the development of the Energa Group at least throughout 2021





Photovoltaic farm – Bystra, municipality of Gdańsk

## **Financial and assets situation of the Energa Group**

## 4. FINANCIAL AND ASSETS SITUATION OF THE ENERGA GROUP

### 4.1. Rules of preparing the annual consolidated financial statements

The consolidated financial statements of the Energa Group for the year ended 31 December 2020 were prepared:

- in accordance with the International Financial Reporting Standards endorsed by the European Union,
- on a historical cost basis, except for financial instruments measured at fair value through profit or loss and hedging derivatives,
- in millions of Polish zlotys ("m PLN"),

based on the assumption that the Group would continue as a going concern in the foreseeable future. As at the date of the financial statements there is no evidence indicating that the continuation of the Energa Group's business activities as a going concern may be at risk.

The parent company's Management Board applied the standards and interpretations as well as the valuation approaches and principles for each item of the consolidated financial statements of the Energa Group to the best of their knowledge, in line with the IFRS EU for the year ended 31 December 2020. Due diligence was applied in the preparation of the accompanying supplementary information and notes.

The accounting principles (policy) applied to prepare the annual consolidated financial statements are presented in note 9 to the annual consolidated financial statements of the Energa Group for the year ended 31 December 2020.

### 4.2. Explanation of the economic and financial data disclosed in the annual consolidated financial statements

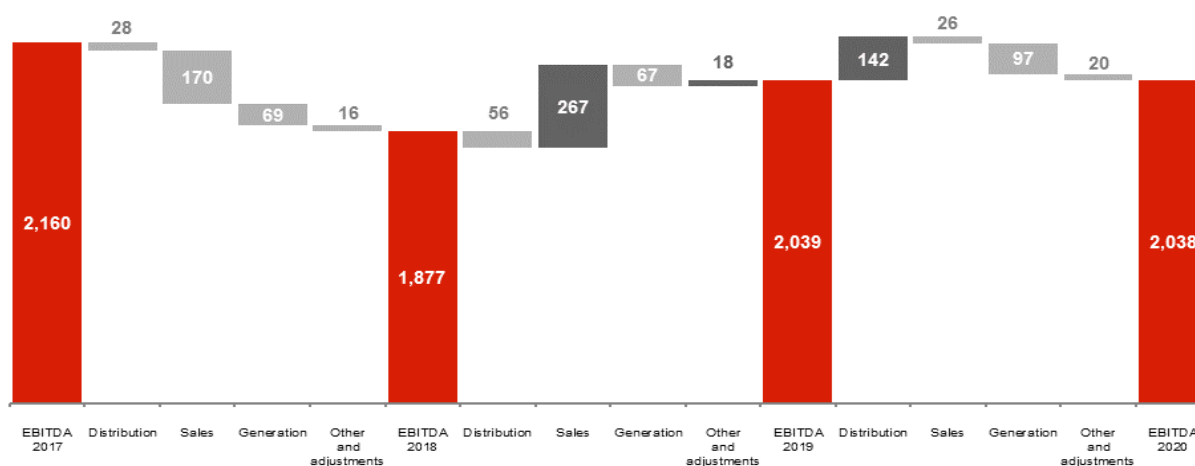
Table 5: Consolidated statement of profit or loss (PLN m)

PLN m	2017	2018	2019	2020	Change 2020/2019	Change 2020/2019 (%)
<b>Sales revenues</b>	<b>10,534</b>	<b>10,337</b>	<b>11,479</b>	<b>12,496</b>	<b>1,017</b>	<b>9%</b>
<b>Revenue from the Price Difference Payment Fund</b>	<b>-</b>	<b>-</b>	<b>693</b>	<b>57</b>	<b>(636)</b>	<b>-92%</b>
Cost of sales	(8,615)	(8,284)	(10,930)	(11,271)	(341)	3%
<b>Gross profit</b>	<b>1,919</b>	<b>2,053</b>	<b>1,242</b>	<b>1,282</b>	<b>40</b>	<b>3%</b>
Other operating income	118	104	245	322	77	31%
Selling and distribution expenses	(341)	(354)	(380)	(380)	-	-
General and administrative expenses	(326)	(355)	(364)	(377)	(13)	4%
Other operating expenses	(160)	(272)	(284)	(183)	101	-36%
<b>Operating profit</b>	<b>1,210</b>	<b>1,176</b>	<b>459</b>	<b>664</b>	<b>205</b>	<b>45%</b>
Result on financial activity	(232)	(313)	(722)	(619)	103	-14%
Share in profit/(loss) of entities measured by the equity method	24	90	(496)	(264)	232	-47%
<b>Profit or loss before tax</b>	<b>1,002</b>	<b>953</b>	<b>(759)</b>	<b>(219)</b>	<b>540</b>	<b>-71%</b>
Income tax	(213)	(209)	(242)	(225)	17	-7%
<b>Net profit or loss for the period</b>	<b>789</b>	<b>744</b>	<b>(1,001)</b>	<b>(444)</b>	<b>557</b>	<b>-56%</b>
<b>EBITDA</b>	<b>2,160</b>	<b>1,877</b>	<b>2,039</b>	<b>2,038</b>	<b>(1)</b>	<b>-0%</b>

**Energa SA's Management Board Report on the activities  
of the Energa Capital Group and Energa SA in 2020**

PLN m	Q4 2019	Q4 2020	Change	Change (%)
<b>Sales revenues</b>	<b>3,007</b>	<b>3,324</b>	<b>317</b>	<b>11%</b>
<b>Revenue from the Price Difference Payment Fund</b>	<b>100</b>	<b>54</b>	<b>(46)</b>	<b>-46%</b>
Cost of sales	(3,024)	(2,768)	256	-8%
<b>Gross profit</b>	<b>83</b>	<b>610</b>	<b>527</b>	<b>&gt; 100%</b>
Other operating income	50	67	17	34%
Selling and distribution expenses	(97)	(105)	(8)	8%
General and administrative expenses	(94)	(100)	(6)	6%
Other operating expenses	(158)	(107)	51	-32%
<b>Operating profit</b>	<b>(216)</b>	<b>365</b>	<b>581</b>	<b>&lt; -100%</b>
Result on financial activity	(473)	(56)	417	-88%
Share in profit/(loss) of entities measured by the equity method	(523)	5	528	< -100%
<b>Profit or loss before tax</b>	<b>(1,212)</b>	<b>314</b>	<b>1,526</b>	<b>&lt; -100%</b>
Income tax	(144)	(76)	68	-47%
<b>Net profit or loss for the period</b>	<b>(1,356)</b>	<b>238</b>	<b>1,594</b>	<b>&lt; -100%</b>
<b>EBITDA</b>	<b>297</b>	<b>482</b>	<b>185</b>	<b>62%</b>

**Figure 20: EBITDA bridge by Business Lines (PLN m) in 2017-2020**



The Group's EBITDA in 2020 was PLN 2,038 m vs. PLN 2,039 m in 2019. The highest rise in EBITDA by PLN 142 m to PLN 1,790 m was seen in the Distribution Business Line. This was mainly related to an increase in the margin on distribution of electricity, and a one-off event which improved Line's results in Q2 2020 (there was a change in recognition of infrastructure received free of charge in connection with adoption of an accounting policy consistent with that of ORLEN Group). Other Business Lines recorded yoy EBITDA drops, with the most severe drop recorded by Generation Business Line by PLN 97 million, caused by lower revenues from sales of energy and regulatory system services and higher costs of purchase of emission allowances (while the costs of consumption of key fuels for production fell down).

The Distribution Business Line was the greatest contributor to the Group's EBITDA in 2020 (88%), while the contributions of the Generation Business Line and the Sales Business Line were at 8% each.

The Group's EBIT in 2020 amounted to PLN 664 m compared to PLN 459 m in 2019 (an increase by 45%). Besides factors described above, the change in the yoy EBIT was mostly affected by recognition of the impairment loss on the value of assets in Ostrołęka Power Plant B for the total amount of PLN 414 million PLN in 2020 and reversal of the impairment loss on the value of wind and CHP assets (total value of reversed impairment losses was PLN 82 million). Impairment losses in the Generation Business Line in 2019 totalled PLN 496 million.



In 2020, a share in the results of associated entities and joint ventures was recognized at PLN -264 m, the corresponding figure for 2019 being PLN -496 m. In 2020 a provision was created for settlement with Elektrownia Ostrołęka Sp. z o.o. following the proposal made by the general contractor to settle the investment involving construction of Ostrołęka Power Plant C (PLN 218 million), while 2019 saw a reduction in the value of the investment in Elektrownia Ostrołęka Sp. z o.o. to zero in the consolidated financial statements of the Energa Group (negative impact on the EBIT: PLN 443 million).

The result on financing activity in 2020 was higher by 103 million yoy. This improvement was mainly the result of lower interest costs in connection with the systematic repayment of financial liabilities and in connection with the reduction of market interest rates. The Group also received a refund of the excess costs of financing with hybrid bonds. In addition, write-off of the loan granted to Elektrownia Ostrołęka Sp. z o.o. was recognized in 2020 following the decision not to continue construction of Ostrołęka Power Plant C in its existing form. An impairment loss on the value of the investment in the joint venture in PGG and Polimex Mostostal S.A. associate was made. In 2019 the value of the block of PGG shares was re-assessed, resulting in the write-off at PLN 372 million.

As a result, the Group's net profit/loss amounted to PLN -444 m in 2020 compared to PLN -1,001 m in 2019.

In 2020, the Group generated PLN 12,553 million in sales, 3% or PLN 381 million more than in 2019. The main factor contributing to improvement of yoy revenues was an increase in revenues in the Distribution Business Line, which was the result of an increase in the average price of the distribution service in connection with favourable tariff in 2020.

The Group's EBITDA in Q4 2020 was PLN 482 m vs. PLN 297 m in the same period of the previous year. The result was positively affected by the Sales Business Line, with its EBITDA increasing by PLN 118 million, mainly as a result of the provision created at the end of 2019 for contracts incurring charges relating to the unfavourable G tariff for 2020. In addition, compensation resulting from the final settlement of the 2019 "electricity" law was recognised in December 2020, increasing the Q4 2020 result. Distribution Business Line recorded EBITDA higher by PLN 93 million yoy. It was the effect of a higher margin on distribution with grid losses included in relation to a higher average selling price of the distribution service and a higher volume of that service.

The effect of material non-recurring events (assuming a materiality threshold of PLN 25 m) burdening the EBITDA has been presented below.

**Table 6: EBITDA after material one-off events\* (PLN m)**

<b>EBITDA (PLN m)</b>	
<b>12 months of 2020</b>	
<b>EBITDA</b>	<b>2,038</b>
<b>Adjusted EBITDA</b>	<b>2,096</b>
<i>including:</i>	
<i>Actuarial reserves</i>	<i>25</i>
<i>Legal disputes with wind farms</i>	<i>55</i>
<i>Provision for onerous contracts</i>	<i>(125)</i>
<i>"Electricity" Act of 2019 – final settlement of compensations</i>	<i>(57)</i>
<i>Revenue loss due to G Tariff</i>	<i>188</i>
<i>Estimated impact of COVID-19</i>	<i>66</i>
<i>Change of recognising the infrastructure obtained free of charge (alignment of the accounting policy with PKN Orlen Group)</i>	<i>(94)</i>
<b>12 months of 2019</b>	
<b>EBITDA</b>	<b>2,039</b>
<b>Adjusted EBITDA</b>	<b>2,122</b>
<i>including:</i>	
<i>Actuarial reserves</i>	<i>46</i>
<i>Legal disputes with wind farms</i>	<i>48</i>

EBITDA (PLN m)	
<b>Q4 2020</b>	
<b>EBITDA</b>	<b>482</b>
<b>Adjusted EBITDA</b>	<b>459</b>
<i>including:</i>	
<i>Legal disputes with wind farms</i>	59
<i>Provision for onerous contracts</i>	(30)
<i>"Electricity" Act of 2019 – final settlement of compensations</i>	(60)
<i>Revenue loss due to G Tariff</i>	48
<i>Estimated impact of COVID-19</i>	(34)

<b>Q4 2019</b>	
<b>EBITDA</b>	<b>297</b>
<b>Adjusted EBITDA</b>	<b>414</b>
<i>including:</i>	
<i>Provision for onerous contracts</i>	99

\* The table presents non-recurring items identified on the basis of the criterion of materiality, which was set at PLN 25m. In the case of impact of the Act on Energy Prices in 2019, the criterion of materiality was not applied given the importance of the matter.

**Table 7: Consolidated statement of financial position (PLN millions)**

	As at 31 December 2017*	As at 31 December 2018*	As at 31 December 2019	As at 31 December 2020	Change 2020/2019	Change 2020/2019 (%)
<b>ASSETS</b>						
<b>Non-current assets</b>						
Property, plant and equipment	13,434	14,396	14,262	14,565	303	2%
Intangible assets	275	246	223	242	19	9%
Right-of-use assets	-	-	847	907	60	7%
Goodwill	15	15	11	11	-	-
Investments in associates and joint ventures measured by the equity method	728	1,029	336	105	(231)	-69%
Deferred tax assets	325	313	262	207	(55)	-21%
Other non-current financial assets	46	65	190	77	(113)	-59%
Other non-current assets	107	118	144	141	(3)	-2%
	<b>14,930</b>	<b>16,182</b>	<b>16,275</b>	<b>16,255</b>	<b>(20)</b>	<b>-0%</b>
<b>Current assets</b>						
Inventories	352	687	756	824	68	9%
Current tax receivables	31	4	61	30	(31)	-51%
Trade receivables	1,843	1,792	1,802	1,941	139	8%
Investments in the portfolio of financial assets	-	-	-	-	-	-
Contract assets	-	-	-	-	-	-
Other current financial assets	83	22	203	60	(143)	-70%

**Energa SA's Management Board Report on the activities  
of the Energa Capital Group and Energa SA in 2020**

Cash and cash equivalents	3,641	2,724	1,461	221	(1,240)	-85%
Other current assets	176	188	409	337	(72)	-18%
	<b>6,126</b>	<b>5,417</b>	<b>4,692</b>	<b>3,413</b>	<b>(1,279)</b>	<b>-27%</b>
<b>TOTAL ASSETS</b>	<b>21,056</b>	<b>21,599</b>	<b>20,967</b>	<b>19,668</b>	<b>(1,299)</b>	<b>-6%</b>
<b>EQUITY AND LIABILITIES</b>						
<b>Equity</b>						
Share capital	4,522	4,522	4,522	4,522	-	-
Foreign exchange differences from translation of a foreign entity	(2)	-	-	5	5	-
Reserve capital	1,018	1,018	1,018	1,018	-	-
Supplementary capital	1,433	1,540	2,035	1,661	(374)	-18%
Cash flow hedge reserve	2	(34)	(52)	(96)	(44)	-85%
Retained earnings	2,436	3,249	1,730	1,669	(61)	-4%
<b>Equity attributable to equity holders of the Parent</b>	<b>9,409</b>	<b>10,295</b>	<b>9,253</b>	<b>8,779</b>	<b>(474)</b>	<b>-5%</b>
<b>Non-controlling interests</b>	<b>56</b>	<b>61</b>	<b>11</b>	<b>(36)</b>	<b>(47)</b>	<b>&lt; -100%</b>
	<b>9,465</b>	<b>10,356</b>	<b>9,264</b>	<b>8,743</b>	<b>(521)</b>	<b>-6%</b>
<b>Non-current liabilities</b>						
Loans and borrowings	2,720	2,384	2,047	1,690	(357)	-17%
Liabilities for debt securities issued	4,520	4,484	2,326	2,520	194	8%
Non-current provisions	550	642	786	923	137	17%
Deferred tax liabilities	596	593	738	777	39	5%
Deferred income and non-current grants	488	262	284	214	(70)	-25%
Lease liabilities	2	16	637	704	67	11%
Other non-current financial liabilities	79	45	82	22	(60)	-73%
Contract liabilities	13	12	12	11	1	8%
	<b>8,968</b>	<b>8,438</b>	<b>6,912</b>	<b>6,861</b>	<b>(51)</b>	<b>-1%</b>
<b>Current liabilities</b>						
Trade liabilities	792	746	941	792	(149)	-16%
Contract liabilities	86	85	88	131	43	49%
Current portion of loans and borrowings	356	189	393	1,742	1,349	> 100%
Liabilities for debt securities issued	109	108	2,219	41	(2,178)	-98%
Current income tax liability	11	65	-	-	-	-
Deferred income and grants	181	186	186	187	1	1%
Short-term provisions	571	942	583	763	180	31%
Other financial liabilities	280	300	235	249	14	6%
Other current liabilities	237	184	146	159	13	9%
	<b>2,623</b>	<b>2,805</b>	<b>4,791</b>	<b>4,064</b>	<b>(727)</b>	<b>-15%</b>
<b>Total liabilities</b>	<b>11,591</b>	<b>11,243</b>	<b>11,703</b>	<b>10,925</b>	<b>(778)</b>	<b>-7%</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>21,056</b>	<b>21,599</b>	<b>20,967</b>	<b>19,668</b>	<b>(1,299)</b>	<b>-6%</b>

\*restated

As at 31 December 2020, the balance sheet total of the Energa Group was PLN 19,668 m, down by PLN 1,299 m compared to the year-end figure for 2019.

As regards non-current assets, the greatest change was seen in the Investments in associates and joint ventures accounted for under the equity method, which was mainly due to the impairment charges of investments in a joint venture in Polska Grupa Górnicza SA in the amount of PLN 145 m and in an associated entity Polimex-Mostostal SA in the amount of PLN 38 m. In turn, on the current assets side, changes were mainly observed in cash (the reasons for the change in cash were described later on in the section on cash flows) and in other short-term financial assets, where the decrease was mainly the result of a decrease in the value of deposits hedging transactions cleared through the Commodity Clearing House (IRGiT – Izba Rozliczeniowa Giełd Towarowych SA).

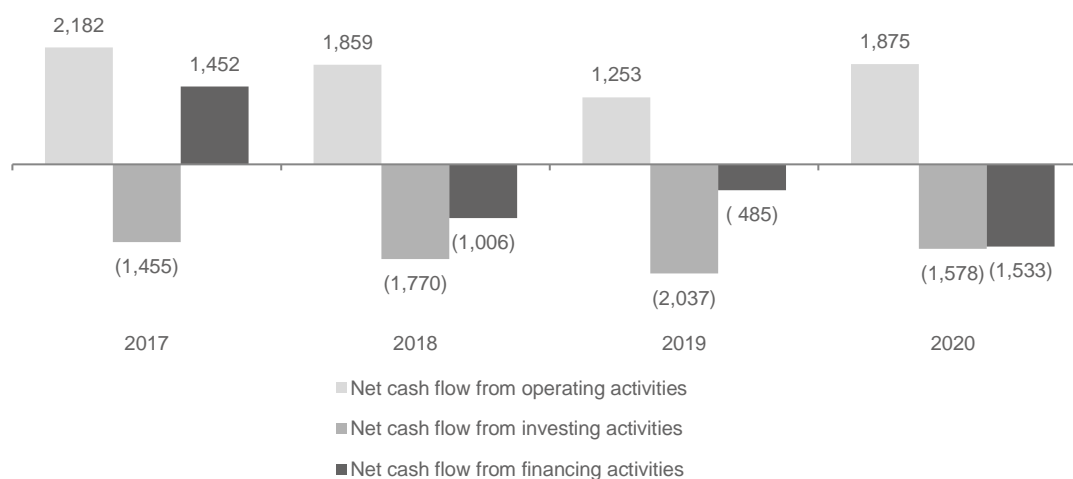
The Energa Group's equity as at 31 December 2020 was PLN 8,743 m and its share in the financing of the Group was 44%.

The key change in liabilities was related to the Current Loans and Borrowings item as a result of loan drawdowns/ repayments, including in particular a syndicated loan and a loan from Bank Gospodarstwa Krajowego in the total amount of PLN 1,350 m as at 31 September 2020. A significant change, opposite to the change specified above, was noted in short-term liabilities on account of the issue of debt securities, and was mainly related to the redemption of Eurobonds maturing in March 2020, issued in March 2013 by Energa Finance AB (publ) under the EMTN programme. There was also a significant change vis-à-vis 2019 year-end concerning provisions, both long- and short-term. This results from, among others, the Group setting up a provision for its capital expenditure commitments to Elektrownia Ostrołęka Sp. z o.o. in 2020, following the proposed settlement of the Ostrołęka C Power Plant construction project, submitted by the general contractor.

**Table 8: Consolidated cash flow statement (PLN m)**

PLN m	2017	2018	2019	2020	Change 2020/2019	Change 2020/2019 (%)
Net cash flow from operating activities	2,182	1,859	1,253	1,875	622	50%
Net cash flows from investment activities	(1,455)	(1,770)	(2,037)	(1,578)	459	23%
Net cash flows from financial activities	1,452	(1,006)	(485)	(1,533)	(1,048)	< -100%
Net increase / (decrease) in cash	2,179	(917)	(1,269)	(1,236)	33	3%

**Figure 21: Cash flows of the Group in 2017-2020 (PLN m)**



Total net cash flows from operating, investment and financing activities of the Group in 2020 were negative at PLN 1,236 m, compared to negative flows of PLN 1,269 m in 2019.

Cash flows from operating activities increased by PLN 622 m compared to 2019. The increase in cash flows from operating activities was mainly caused by a lower gross loss, a positive instead of negative change in the balance of other financial receivables (mainly related to a lower level of deposits securing transactions cleared via IRGiT) and a change in provisions that was positive instead of negative. These items exceeded changes in liabilities, share in profit/(loss) of entities measured by the equity method and profit/loss on investment activities.

Net outflows from investing activities decreased by PLN 459 m in 2020, mainly due to repayment of the loan with interest by ENEA S.A. as well as the lack of expenditures on the purchase of shares in associates (PLN 181 m spent on that purpose as at 31 December 2019). Expenses on the purchase of property, plant and equipment and intangible assets in 2020 were 75 million lower compared to 2019. In 2020 and in 2019 loans were granted to Elektrownia Ostrołęka Sp. z o.o., thus the change in this item of the statement of cash flows is not material.

In 2020, cash flows from financing activities were negative at PLN 1,533 m compared to negative flows of PLN 485 m in 2019. 2020 saw significant inflows and outflows from loans taken, and outflows from redemption of debt securities.

### 4.3. Structure of assets and liabilities in the consolidated statement of financial position

Figure 22: Structure of assets and liabilities from 2017 to 2020

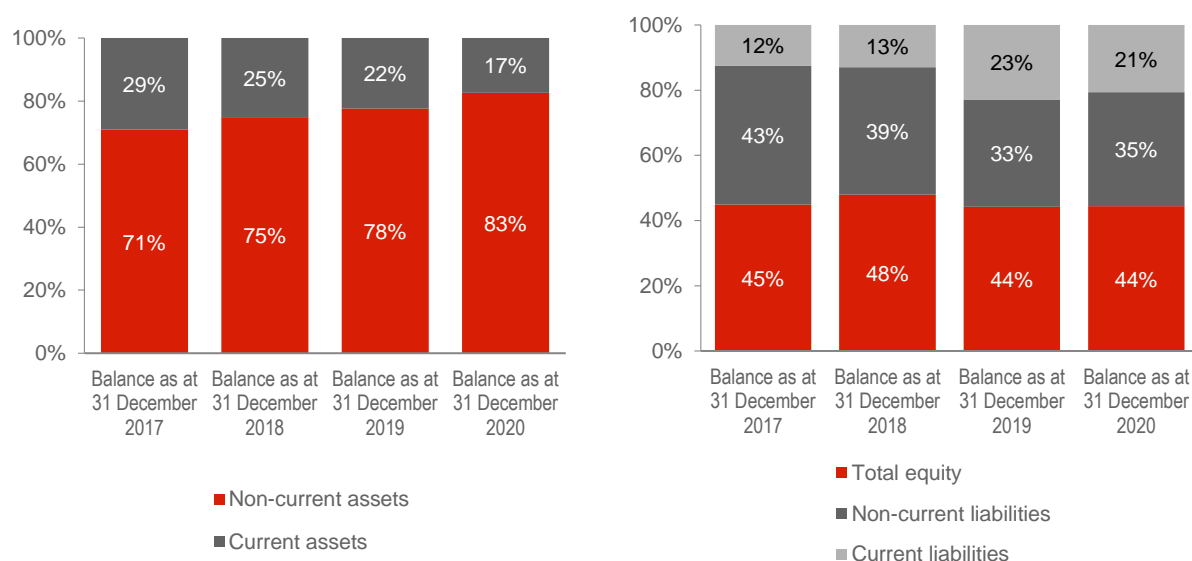


Table 9: Financial ratios of the Enega Group

Ratio	Definition	2017	2018	2019	2020
<b>Profitability</b>					
EBITDA margin	operating result + depreciation and amortization + impairment of non-financial non-current assets/ sales revenues (taking into account the revenue from the Price Difference Payout Fund)	20.5%	18.2%	16.8%	16.2%
return on equity (ROE)	net profit for the period / total equity at the end of period	8.3%	7.2%	-10.8%	-5.1%
return on sales (ROS)	net profit for the period / sales revenues (taking into account the revenue from the Price Difference Payout Fund)	7.5%	7.2%	-8.2%	-3.6%
return on assets (ROA)	net profit for the period / total assets at the end of the period	3.7%	3.4%	-4.8%	-2.3%

**Energa SA's Management Board Report on the activities  
of the Energa Capital Group and Energa SA in 2020**

Ratio	Definition	As at 31 December 2017	As at 31 December 2018	As at 31 December 2019	As at 31 December 2020
<b>Liquidity</b>					
current liquidity ratio	current assets/current liabilities	2.3	1.9	1.0	0.8
<b>Debt</b>					
financial liabilities (PLN m)*	total liabilities due to loans and borrowings, debt securities and leases (both long- and short-term)	7,710	7,183	7,661	6,736
net financial liabilities (PLN m)	financial liabilities - cash and cash equivalents	4,069	4,459	6,200	6,515
net debt**/ EBITDA ratio	net financial liabilities/EBITDA	1.4	1.8	2.2	2.3

\* due to the first-time adoption of IFRS 16, lease liabilities increased significantly; therefore, starting from 1 January 2019, this line item has been included in the calculation of financial liabilities; the figures for 2017-2018 have been restated;

\*\* net financial liabilities included in the calculation of the net debt/ EBITDA ratio include the key elements defined in the financing agreements; the figures for 2017-2018 have been restated.

Sales revenues increased in 2020 compared to the previous year, while EBITDA remained at a similar level (the factors affecting these changes are described in the section on financial figures). As a result, the EBITDA margin ratio decreased. On the other hand, the improvement of the net result, and hence the profitability ratios, was influenced in particular by the recognition of impairment losses in 2020 at a level lower than in the previous year.

The lower level of cash and equivalents and the related decrease in current assets contributed to the reduction of the current liquidity ratio.

In particular, the increase in the net debt / EBITDA ratio was driven by a lower level of cash accompanied by a drop in financial liabilities as at 31 December 2020 compared to 31 December 2019 (where the drop in cash was greater than the drop in financial liabilities).

#### **4.4. Description of significant off-balance sheet items**

For details please see section 9.1. *Information on material contracts, agreements and transactions* of this Report and note 36 to the consolidated financial statements: *Contingent assets and liabilities*.

#### **4.5. Projected financial results**

The Management Board of Energa has not published projections for standalone and consolidated financial results for the financial year of 2020.





Włocławek Hydroelectric Power Station

## Operations of the Energa Group Segments

## 5. OPERATIONS OF THE ENERGA GROUP SEGMENTS

Energa Group's financial performance by Business Lines was as follows:

Table 10: EBITDA of the Energa Group, by Business Lines (PLN m)

EBITDA in PLN m	2017	2018	2019	2020	Change 2020/2019	Change 2020/2019 (%)
DISTRIBUTION	1,732	1,704	1,648	1,790	142	9%
GENERATION	398	329	262	165	(97)	-37%
SALES	85	(85)	182	156	(26)	-14%
OTHER and consolidation eliminations and adjustments	(55)	(71)	(53)	(73)	(20)	-38%
<b>Total EBITDA</b>	<b>2,160</b>	<b>1,877</b>	<b>2,039</b>	<b>2,038</b>	<b>(1)</b>	<b>0%</b>

EBITDA in PLN m	Q4 2019	Q4 2020	Change	Change (%)
DISTRIBUTION	345	438	93	27%
GENERATION	36	30	(6)	-17%
SALES	(76)	42	118	> 100%
OTHER and consolidation eliminations and adjustments	(8)	(28)	(20)	< -100%
<b>Total EBITDA</b>	<b>297</b>	<b>482</b>	<b>185</b>	<b>62%</b>

### 5.1. Distribution Business Line

#### 5.1.1. Business and operating activities

Table 11: Distribution of electricity by tariff groups (GWh)

Distribution of electricity by tariff groups (billed sales) in GWh	2017	2018	2019	2020	Change 2020/2019	Change 2020/2019 (%)
Tariff group A (HV)	3,512	3,503	3,274	3,187	(87)	-3%
Tariff group B (MV)	8,436	8,905	8,818	8,558	(260)	-3%
Tariff group C (LV)	4,620	4,522	4,397	4,129	(268)	-6%
Tariff group G (LV)	5,500	5,611	5,666	5,889	223	4%
<b>Total distribution of electricity</b>	<b>22,068</b>	<b>22,542</b>	<b>22,155</b>	<b>21,763</b>	<b>(392)</b>	<b>-2%</b>

Distribution of electricity by tariff groups (billed sales) in GWh	Q4 2019	Q4 2020	Change	Change (%)
Tariff group A (HV)	826	824	(2)	-0%
Tariff group B (MV)	2,243	2,250	6	0%
Tariff group C (LV)	1,112	1,094	(18)	-2%
Tariff group G (LV)	1,416	1,484	69	5%
<b>Total distribution of electricity</b>	<b>5,597</b>	<b>5,652</b>	<b>55</b>	<b>1%</b>

In 2020, the volume of electricity supplied was on average 2% lower than in the previous year. The volume decreased the most in groups B and C, while there was an increase in group G. These changes were related to the restrictions resulting from the COVID-19 pandemic, namely the partial lockdown of the economy and an increase in the scope of remote work and learning in households. The decrease in the volume sold was accompanied by a considerable increase in the average distribution rate by approx. 7% yoy, given the increase in rates of distribution fees in the 2020 tariff.

In Q4 2020, in turn, the volume of energy supplied was slightly higher than in the same period of the previous year.

**Table 12: SAIDI and SAIFI indicators**

	SAIDI			SAIFI		
	Unplanned incl. catastrophic	Planned	Total	Unplanned incl. catastrophic	Planned	Total
	Minutes per customer in the period			Disruptions per customer in the period		
Q4 2019	12.9	8.1	20.9	0.2	0.0	0.3
<b>Q4 2020</b>	<b>21.9</b>	<b>5.8</b>	<b>27.7</b>	<b>0.4</b>	<b>0.0</b>	<b>0.4</b>
Change	9.0	(2.3)	6.8	0.1	(0.0)	0.1
Change (%)	70%	-28%	32%	58%	-14%	46%
2017	298.0	55.4	353.3	2.7	0.3	3.0
2018	107.2	43.8	151.0	1.9	0.3	2.1
2019	98.2	28.7	126.9	1.8	0.2	2.0
<b>2020</b>	<b>96.0</b>	<b>20.8</b>	<b>116.8</b>	<b>1.7</b>	<b>0.1</b>	<b>1.9</b>
Change 2020/2019	(2.2)	(7.9)	(10.1)	(0.1)	(0.1)	(0.2)
Change 2020/2019 (%)	-2%	-28%	-8%	-7%	-27%	-8%

In 2020, the Energa Group's SAIDI (planned and unplanned incl. catastrophic) was 8% better than in the previous year. The SAIFI value also improved, also by 8% yoy.

Results of SAIDI and SAIFI supply reliability ratios achieved in 2020 continue the improving trend of these ratios in the Energa Group.

Improvement in the ratios was mainly the result of reduction in the number of scheduled disruptions by maintaining a high level of performance of scheduled work without customer switch-off (technologies of live work in MV and LV networks, use of power generators, and the pooling of work carried out during a single switch-off). The lower number of unscheduled disruptions also improved the results.

In yoy quarterly terms, there was a slight deterioration in the indicators, mainly in terms of unscheduled disruptions.

**Table 13: Number of customers of Energa Operator SA in 2017-2020 (by tariff groups)**

Tariff groups at Energa Operator [units]	As at 31 December				Change 2020/2019	Change 2020/2019 (%)
	2017	2018	2019	2020		
Tariff group A	91	94	108	129	21	19%
Tariff group B	7,181	7,425	8,056	8,433	377	5%
Tariff group C	288,727	288,231	290,080	292,926	2,846	1%
Tariff group G	2,746,711	2,792,187	2,836,927	2,891,025	54,098	2%
<b>TOTAL</b>	<b>3,042,710</b>	<b>3,087,937</b>	<b>3,135,171</b>	<b>3,192,513</b>	<b>57,342</b>	<b>2%</b>

*Tariff group A – the largest customers connected to HV grid (110 kV), such as mills, melting plants, mines, shipyards and other large industrial facilities;*

*Tariff group B – large industrial facilities connected to MV grid (1 to 60 kV), such as manufacturing plants, hospitals, shopping centres, leisure and entertainment facilities;*

*Tariff group C – institutional customers connected to LV grid (up to 1 kV), such as banks, shops, clinics, retail and service outlets, street lighting;*

*Tariff group G – households and similar customers, regardless of power supply voltage.*

In 2020, Energa Operator recorded an increase in the number of customers by 2% compared to the end of the previous year. There was an increase in the number of customers in all tariff groups.

### Smart Grid implementation

The Smart Grid project aimed at ensuring stability and flexibility of the distribution system by deploying smart grid solutions is co-financed from EU funds as part of Operational Programme Infrastructure and Environment.

As part of the project, the SCADA electric grid control system will be expanded to include the fault location module, which will shorten duration of disruptions in supply of electricity.

Construction of an energy storage facility designed to stabilise the operation of the distribution system of 4 MW PV farm in Czerwikowo is also an element of the project. The storage facility will be based on lithium-ion battery technology and will offer 1 MW rated power with capacity of 2 MWh.

### 5.1.2. Financial results

Figure 23: Results of the Distribution Business Line of the Energa Group (PLN m)

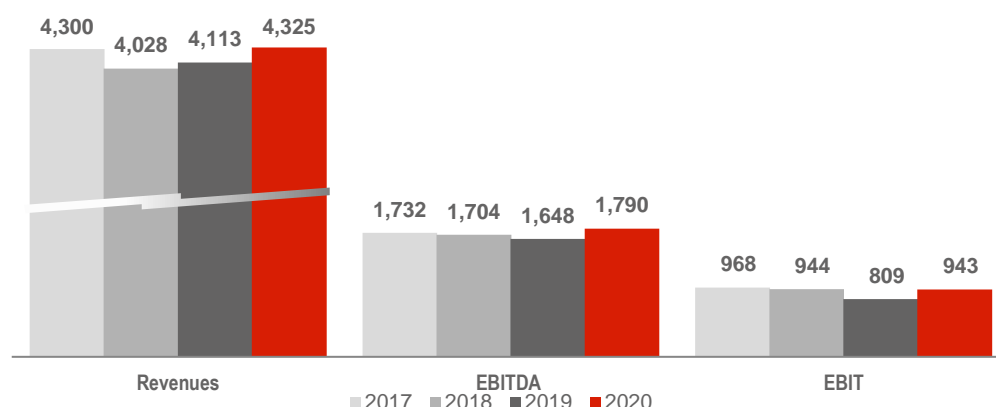


Table 14: Results of the Distribution Business Line (PLN m)

PLN m	2017	2018	2019	2020	Change 2020/2019	Change 2020/2019 (%)
Revenues	4,300	4,028	4,113	4,325	212	5%
<b>EBITDA</b>	<b>1,732</b>	<b>1,704</b>	<b>1,648</b>	<b>1,790</b>	<b>142</b>	<b>9%</b>
amortization and depreciation	764	760	839	847	8	1%
impairment of non-financial non-current assets	-	-	-	-	-	0%
EBIT	968	944	809	943	134	17%
Net result	685	647	547	614	67	12%
CAPEX	1,251	1,368	1,334	1,350	16	1%

PLN m	Q4 2019	Q4 2020	Change	Change (%)
Revenues	1,056	1,136	80	8%
<b>EBITDA</b>	<b>345</b>	<b>438</b>	<b>93</b>	<b>27%</b>
amortization and depreciation	226	219	(7)	-3%
impairment of non-financial non-current assets	-	-	-	0%
EBIT	119	219	100	84%
Net result	82	135	53	65%
CAPEX	389	453	64	16%

Figure 24: EBITDA bridge of the Distribution Business Line (PLN million)



Throughout 2020, the Distribution Business Line generated almost 88% of the EBITDA for the Energa Group (vs. nearly 81% in 2019).

Sales revenues of the Distribution Business Line in 2020 totalled PLN 4,325 million, a 2% increase year on year, resulting from an increase in revenues on sales of distribution services.

EBITDA for this Line amounted to PLN 1,790 m and was higher than in the previous year by approx. 9%.

An increase in the distribution margin by PLN 129 million (taking into account grid losses) had a significant impact on the increase in the EBIT operating result by 17% yoy (to PLN 943 million). This was mainly the result of average price of sales of the distribution service by approx. 7%, which resulted from a favourable tariff for 2020, with the lower increase in the costs of transmission and transit fees yoy. Valuation of estimated non-invoiced grid losses had a negative impact.

Other factors affecting the change in the level of EBIT operating result is the drop in revenues from connections, an increase in the cost of real property tax, and unfavourable balance of provisions (among others provisions on building power engineering infrastructure on third party land) and random losses, compensated with a single event which improved Line results in Q2 2020 - recognition of the infrastructure received free of charge was changed (settled to date under deferred income) in connection with making the accounting policy consistent with the ORLEN Group.

In 2020, the Distribution Business Line reported net profit of PLN 614 m, 12% higher yoy. The improvement was mainly the result of the change in EBIT.

Capital expenditure of the Line totalled PLN 1,350 million and was just slightly lower (by 1%) than in 2019.

The EBITDA in the same Q4 2020 totalled PLN 438 m, 27% higher or PLN 93 m more compared with the corresponding period of the preceding year. It was the effect of a higher margin on distribution with grid losses included in relation to a 6% higher average selling price of the distribution service and a 1% higher volume of that service, as well as lower costs of electricity to cover grid losses.

## 5.2. Generation Business Line

### 5.2.1. Business and operating activities

Table 15: Gross electricity production (GWh)

Gross electricity production (GWh)	2017	2018	2019	2020	Change 2020/2019	Change 2020/2019 (%)
Power plants – coal-fired	2,586	2,546	2,054	1,609	(445)	-22%
Power plants - biomass co-fired	-	-	57	156	100	> 100%
CHP plants - coal-fired	115	127	106	78	(28)	-26%
CHP plants - biomass-fired	45	15	150	45	(104)	-70%

**Energa SA's Management Board Report on the activities  
of the Energa Capital Group and Energa SA in 2020**

Power plants – hydro	1,027	785	707	740	33	5%
Pumped storage plant	31	34	54	62	9	16%
Power plants – wind	471	385	446	488	41	9%
Power plants - photovoltaics	5	6	5	5	(0)	-6%
<b>Total production of electricity</b>	<b>4,280</b>	<b>3,896</b>	<b>3,578</b>	<b>3,184</b>	<b>(394)</b>	<b>-11%</b>
<i>including from RES</i>	<i>1,548</i>	<i>1,190</i>	<i>1,365</i>	<i>1,434</i>	<i>70</i>	<i>5%</i>

Gross electricity production (GWh)	Q4 2019	Q4 2020	Change	Change (%)
Power plants – coal-fired	398	533	135	34%
Power plants - biomass co-fired	56	51	(5)	-9%
CHP plants - coal-fired	32	12	(20)	-62%
CHP plants - biomass-fired	47	10	(37)	-80%
Power plants – hydro	129	203	73	57%
Pumped storage plant	17	26	9	50%
Power plants – wind	122	142	20	16%
Power plants - photovoltaics	0	0	0	3%
<b>Total production of electricity</b>	<b>802</b>	<b>977</b>	<b>175</b>	<b>22%</b>
<i>including from RES</i>	<i>354</i>	<i>405</i>	<i>51</i>	<i>14%</i>

The generating assets of the Energa Group produced 3.2 TWh of electricity in 2020 vs. 3.6 TWh in 2019, 11% less. This trend mainly applied to production from hard coal in the Ostrołęka power station and the lower generation of energy in BB20 cogeneration unit in Elbląg. Please note the general increase in production from RES in the Energa Group, which reached 5% yoy due to higher production of energy from water and wind.

The production level at the Ostrołęka power plant was determined by must-run operation for the Transmission System Operator in Poland. Energy production in hydro sources is the effect of hydrological conditions, while the level of production in wind sources was caused by the prevailing weather conditions and commissioning of a new wind farm, Przykona. Energy production in the Group's CHP plants was related to the heat production, which was mainly dependent on the heat demand from the Group's local consumers and the additional factor of an increase in the 2019 base due to a change in the operating mode of BB20 cogeneration unit in Elbląg. In 2019 the unit operated largely in condensation, while in 2020 it operated mainly in cogeneration.

When comparing the size of gross electricity production between Q4 2020 and Q4 2019, there is evidently higher production from hard coal in Ostrołęka power station and higher production from RES (by 14%), especially by water sources.

**Table 16: Gross heat production (TJ)**

Gross heat production in TJ	2017	2018	2019	2020	Change 2020/2019	Change 2020/2019 (%)
ENERGA Kogeneracja Sp. z o.o.	2,400	2,342	2,326	2,160	(166)	-7%
ENERGA Elektrownie Ostrołęka S.A.	1,428	1,294	1,258	1,161	(97)	-8%
Energa Ciepło Kaliskie Sp. z o.o.	312	291	266	272	6	2%
<b>Total gross heat production</b>	<b>4,140</b>	<b>3,928</b>	<b>3,850</b>	<b>3,593</b>	<b>(257)</b>	<b>-7%</b>

Gross heat production in TJ	Q4 2019	Q4 2020	Change	Change (%)
-----------------------------	---------	---------	--------	------------



**Energa SA's Management Board Report on the activities  
of the Energa Capital Group and Energa SA in 2020**

ENERGA Kogeneracja Sp. z o.o.	775	670	(105)	-14%
ENERGA Elektrownie Ostrołęka S.A.	368	360	(8)	-2%
Energa Ciepło Kaliskie Sp. z o.o.	100	110	10	10%
<b>Total gross heat production</b>	<b>1,243</b>	<b>1,141</b>	<b>(103)</b>	<b>-8%</b>

In 2020, the Group produced 3,593 TJ of heat energy, down by 7% compared to the previous year, which was influenced by, among others, the ambient temperature shaping the demand for heat from the Group's consumers in local markets in the cities of Ostrołęka, Elbląg and Kalisz.

In Q4 2020, the production of heat decreased by approx. 103 TJ yoy (or 8%) due to the same factor.

**Table 17: Volume and cost of consumption of key fuels**

Consumption of fuels*	2017	2018	2019	2020	Change 2020/2019	Change 2020/2019 (%)
Hard coal						
Quantity (thous.of tonnes)	1,280	1,297	1,059	826	(233)	-22%
Cost (PLN m)	306	357	319	248	(70)	-22%
Biomass						
Quantity (thous.of tonnes)	46	13	148	147	(1)	-1%
Cost (PLN m)	16	7	84	73	(11)	-13%
<b>Total fuel consumption (PLN m)</b>	<b>322</b>	<b>364</b>	<b>402</b>	<b>321</b>	<b>(82)</b>	<b>-20%</b>

Consumption of fuels*	Q4 2019	Q4 2020	Change	Change (%)
Hard coal				
Quantity (thous.of tonnes)	224	257	33	15%
Cost (PLN m)	70	75	5	7%
Biomass				
Quantity (thous.of tonnes)	67	50	(16)	-25%
Cost (PLN m)	36	25	(12)	-32%
<b>Total fuel consumption (PLN m)</b>	<b>106</b>	<b>99</b>	<b>(7)</b>	<b>-6%</b>

\* including the cost of transport

In 2020 the cost of fuel consumption (coal and biomass) by the Group decreased (by PLN 82 million yoy). The Group's generators consumed 233 thousand tonnes less coal and 1 thousand tonne less biomass compared to 2019. Maintenance of the production from biomass at the similar level resulted mainly from the start of biomass co-firing at the Ostrołęka Power Plant, along with a decrease in production from biomass in Elbląg. The lower coal consumption is an effect of lower electricity production, mainly by the Ostrołęka Power Plant. At the same time, lower unit costs of coal consumption with the cost of transport were recorded by 1% and biomass by 11%.

While analysing the data for Q4 2020 compared to the corresponding period of the previous year, it is evident that the above described trends for biomass unit prices (decrease by 10%) are kept while the unit prices of coal with the costs of transport are lower (by 5%). At the same time, please note an increase in coal consumption (mainly because of higher production at the Ostrołęka power station) and a yoy decrease in biomass consumption (mainly lower production by BB20 cogeneration unit in Elbląg).

## **Construction of Flue Gas Denitrification Plant (IOS II) in Ostrołęka**

The project involved adaptation of process equipment at Energa Elektrownie Ostrołęka SA to requirements of Directive 2010/75/EU of the European Parliament and of the Council of 24 November 2010 on industrial emissions (integrated pollution prevention and control, the so-called IED Directive). Project implementation will allow Ostrołęka Power Plant B to achieve sulphur dioxide emissions (SO<sub>2</sub>) in flue gas below 200 mg/Nm<sup>3</sup> downstream the emission source, as defined in the Directive and effective from 1 January 2016.

Energa Elektrownie Ostrołęka SA put the Second Flue Gas Denitrification Plant into operation on 28 October 2020.

## **Przykona Wind Farm**

Przykona Wind Farm with an installed capacity of 31.05 MW was built on reclaimed area of brown-coal mine site in the Przykona Municipality. It consists of 9 Vestas V-126 3.45 MW wind turbines. In addition, the farm consists of access roads, vehicle circulation areas, RSN Przykona and Żuki buildings and MV cable lines with fibre optic cables inside the wind farm (around 6.5 km long), and for power take-off (around 11 km). Installation of 9 wind turbines was completed in December 2019.

On 10 June 2020 the facility was commissioned.

## **Battery Energy Storage System at Bystra Wind Farm**

The investment is part of the Polish-Japanese project involving the Energa Group and Polskie Sieci Elektroenergetyczne (PSE).

The hybrid BESS battery energy storage system is the largest energy storage system in Poland using high power output lithium ion batteries in combination with lead acid batteries. The use of these two technologies makes it possible to achieve high efficiency in the function of minimizing costs. Storage system tests support assessment of effectiveness of this solution in "smoothing out" short-term fluctuations in the active power generated by the wind farm and ensuring necessary power reserve to balance demand for electricity ("load balancing").

In June 2020 the Powiat Building Control Office was notified of completion of construction of the energy storage building.

On 25 September 2020 the second stage of tests of the hybrid electricity storage system with the target rated power of 6 MW and nominal capacity of 27 MWh was completed and the final acceptance of completed work was performed.

## **CCGT Grudziądz and CCGT Gdańsk - new combined cycle gas turbines**

The projects involve construction of new gas-steam power stations. Modern power engineering infrastructure will support development of the generating base and provision of the capacity service and sales of electricity.

The status of the work is as follows:

CCGT Grudziądz - design work was carried out and key administrative decisions were obtained to achieve project readiness for implementation. As regards design works, the final key construction project involving update of documentation for 400kV take-off line and reconstruction of 110kV line is being finalised; the final decision on granting building permits for these works is expected in Q2-Q3 2021. A tender procedure was launched to select a general contractor of the power station (EPC&LTSA tender procedure). The announcement about the contract for the design, construction, commissioning and servicing of a new gas and steam unit in Grudziądz, along with the auxiliary and accompanying infrastructure, was published on 11 March 2019. Ultimately, the tender procedure was annulled on 31 August 2020. Currently, activities are continued to maintain the feasibility of the project, understood as securing the validity of the project products developed so far, while avoiding spending significant amounts. Return to project implementation depends on the ownership decisions and the macroeconomic environment.

CCGT Gdańsk - an environmental permit was obtained for the 400kV power take-off line from the planned power station; work is continued to secure rights to the real property to take off power from the planned power station. Under the letter of intent, co-operation with the LOTOS Group and PKN ORLEN was started on verification of the potential and preparation of joint implementation of this project.

## Investment programme in the area of heat assets

The key goal of the investment programme is to adapt cogeneration and heat units to strict environmental requirements and to increase the EBITDA.

EBITDA will be maximized by implementing the district heating development programme for Elbląg CHP Plant and Kalisz CHP Plant, which will result in fuel change from hard coal to natural gas, while the position in heat markets in Elbląg and Kalisz is retained.

## PV Gryf Project

Construction a photovoltaic farm with the capacity of 19.83 MW. The farm is being built in the Przykona municipality on land that has been reclaimed after the mining operations of Adamów brown coal mine. The project won the RES auction organised by the Energy Regulatory Office on 14 December 2020. The Notice to Proceed was issued on 30 December 2020. On the same day, the construction site was handed over to the general contractor.

## PV Mitra Project

The Project involves preparation, construction and commissioning of a photovoltaic installation comprising the system of photovoltaic power station with the total installed capacity of approx. 100 MW, 50 substations 30/0.8kV, HV 110 kV power service line with an optical fibre link, a 110/30 kV transformer station, MV 30 kV cable lines and telecommunication lines, grounding and the internal road network with the full accessory infrastructure. Currently, the project is at the stage of necessary administrative permits being obtained.

### 5.2.2. Financial results

Figure 25: Results of the Generation Business Line of the Energa Group (PLN m)

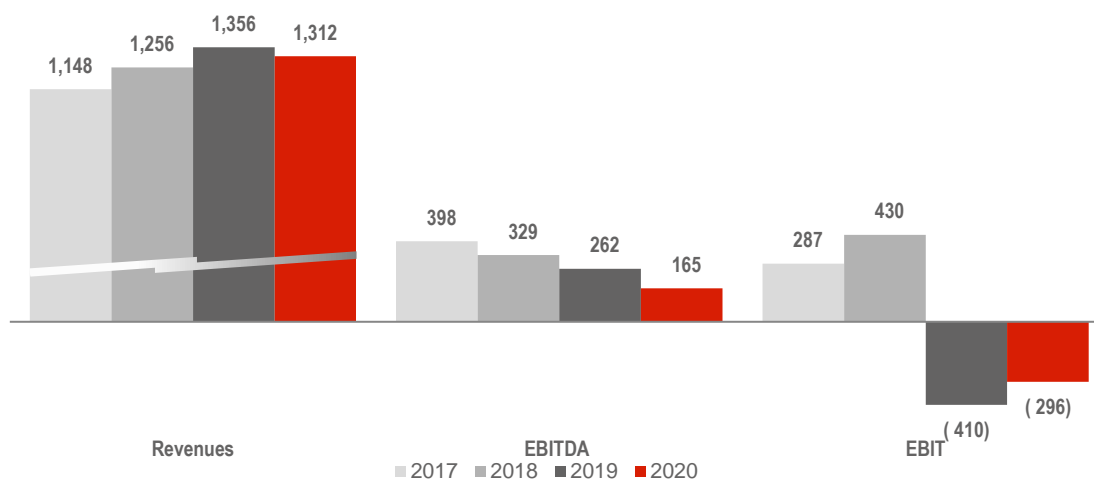


Table 18: Results of the Generation Business Line (PLN m)

PLN m	2017	2018	2019	2020	Change 2020/2019	Change 2020/2019 (%)
Revenues	1,148	1,256	1,356	1,312	(44)	-3%
EBITDA	398	329	262	165	(97)	-37%
amortization and depreciation	164	166	176	131	(45)	-26%
impairment of non-financial non-current assets	(53)	(267)	496	330	(166)	-33%
EBIT	287	430	(410)	(296)	114	28%
Net result	172	306	(477)	(391)	86	18%
CAPEX	87	238	175	274	99	57%

PLN m	Q4 2019	Q4 2020	Change	Change (%)
Revenues	309	417	108	35%
<b>EBITDA</b>	<b>36</b>	<b>30</b>	<b>(6)</b>	<b>-17%</b>
amortization and depreciation	44	23	(21)	-48%
impairment of non-financial non-current assets	226	(142)	(368)	< -100%
EBIT	(234)	149	383	> 100%
Net result	(299)	113	412	> 100%
CAPEX	55	42	(13)	-24%

Figure 26: EBITDA bridge of the Generation Business Line (PLN m)



\* includes net electricity trading (revenue less cost).

The following table presents EBITDA breakdown of the Generation Business Line into individual Generation Segments. The statement presents unit data with the elimination of mutual transactions among business segments and consolidation adjustments.

Table 19: EBITDA for Generation Business Line broken down to Generation Segments (PLN m)

EBITDA in PLN m	2017	2018	2019	2020	Change 2020/2019	Change 2020/2019 (%)
Water	127	103	123	114	(9)	-7%
Wind	42	88	110	106	(5)	-4%
Ostrołęka power plant	189	124	39	(37)	(77)	< -100%
Other and adjustments	40	13	(10)	(17)	(7)	-65%
<b>Generation total</b>	<b>398</b>	<b>329</b>	<b>262</b>	<b>165</b>	<b>(97)</b>	<b>-37%</b>

EBITDA in PLN m	Q4 2019	Q4 2020	Change	Change (%)
Water	12	23	11	86%
Wind	26	31	5	19%
Ostrołęka power plant	(4)	(5)	(0)	-10%
Other and adjustments	2	(19)	(21)	< -100%
<b>Generation total</b>	<b>36</b>	<b>30</b>	<b>(6)</b>	<b>-17%</b>

The EBITDA of the Generation Business Line in 2020 was PLN 165 m, (37% less yoy) accounting for 8% of the total Group EBITDA (13% in 2019). The Line's EBITDA in 2020 was mainly driven by a range of factors, including revenue from the sale of electricity and green property rights, revenues from regulatory system services, cost of consumption of key fuels for production, and costs of purchase of emission allowances.

Lower revenue from the sale of electricity is mainly the result of worse production of electricity by the Ostrołęka power plant and the cogeneration source in Elbląg, as well as lower levels of selling prices for electricity among others at wind power plants and hydroelectric power plants. The level of revenue from the sale of green property rights was driven by their lower prices and the lower volume of production.

Lower revenues from system services stem mostly from lower revenues from the Operating Reserve provided by the Ostrołęka power plant, where the price obtained for that service (given the higher volume reported to that mechanism) was the main factor determining the result.

The cost of consumption of key fuels for production was attributable mainly to the lower volume of production of electricity at Ostrołęka power plant, the lower standalone cost of fuel consumption (mainly biomass) and efficiency of generating units.

Higher costs of purchasing CO<sub>2</sub> emission allowances were driven by an increase in the market prices of emission allowances and reduction in the possessed pool of free emission allowances.

In addition to the factors affecting the gross results of the Business Line as presented above, one has to note that:

- an impairment loss on the assets of Ostrołęka B Power Plant totalling PLN 270 m was recognized in Q2 2019. This impairment loss was dictated by developments in the legislative environment, i.e. by the entry into force of EU Regulation 2019/943 of 5 June 2019 on the internal market for electricity, introducing, inter alia, restrictions on the support under the capacity market mechanism for existing fossil fuel generation units emitting more than 550 g CO<sub>2</sub> per kWh of electricity and more than 350 kg CO<sub>2</sub> on average per year per installed kW<sub>e</sub>;
- an impairment loss on the assets of Ostrołęka B Power Plant totalling PLN 167 m was recognized in Q4 2019. The impairment charge was dictated by developments in the market environment, in particular by a change in forecast prices of electricity and related products. Hence the total amount of impairment losses on this particular asset over 2019 was PLN 437 m;
- an impairment loss on the assets of Elbląg CHP Plant (including BB20 facility) totalling PLN 78 m was recognized in Q4 2019. The impairment loss was dictated by developments in the market environment, in particular by a change in forecast prices of electricity and related products, and by an amendment to the investment plan (the construction of an exhaust-treatment facility was abandoned);
- impairment loss on wind farms and photovoltaic farms totalling PLN 18 m were reversed in Q4 2019. The reversal was dictated by developments in the market environment, in particular by a change in forecast prices of electricity and derived products.
- an impairment loss on the assets of Ostrołęka B Power Plant totalling PLN 473 m was recognized in Q2 2020. The reason for the impairment loss was the change of the end date of the basic equipment life to year 2036. Thus, residual value and the assumption that the power station would operate without time limits was eliminated from the test;
- reversal of the impairment loss on the assets of Ostrołęka B Power Plant totalling PLN 59 m was recognized in Q4 2020. The value in use was calculated on the basis of financial projections for the period of operation of the power station until the end of 2025 subject to update pricing paths and the cost of capital;
- reversal of the impairment loss on the assets of ENERGA Kogeneracja totalling PLN 69 m was recognized in Q4 2020. Value-in-use calculations were made on the basis of financial projections for the entire economic useful life of the unit accounting for replacement of carbon generating assets with gas boilers and engines and updated price paths and cost of capital;
- reversal of the impairment loss on the assets in Energa OZE totalling PLN 13 m was recognized in Q4 2020 due to the positive impact of change in pricing paths and cost of equity.

Capital expenditures of the Line in 2020 increased by PLN 99 m yoy mainly as a result of construction of the Flue Gas Desulphurisation Installation (IOSII) at the Ostrołęka power plant, construction of the Przykona wind farm and modernisation of the Line's assets.

In Q4 2020, higher volumes of energy generation at the Ostrołęka power plant (at the higher price of sale), coupled with a higher volume of energy production from water sources had a positive impact on the performance. Additionally, that impact was exacerbated by higher revenue from sale of system services (the Operating Reserve) and lower purchase prices of coal and biomass. On the other hand, this positive effect was partially reduced by the increase in the purchase prices of emission allowances (given higher prices and the necessary purchase pool) and lower revenues from sales of green property rights (mainly because of the lower production volume at source using this form of support).

Table 20: Results of the Hydro Power Division (PLN m)

PLN m	2017	2018	2019	2020	Change 2020/2019	Change 2020/2019 (%)
Revenues	215	193	226	222	(4)	-2%
<b>EBITDA</b>	<b>127</b>	<b>103</b>	<b>123</b>	<b>114</b>	<b>(9)</b>	<b>-7%</b>
EBIT	94	72	90	80	(10)	-11%
CAPEX	13	11	16	22	7	42%

PLN m	Q4 2019	Q4 2020	Change	Change (%)
Revenues	44	57	13	29%
<b>EBITDA</b>	<b>12</b>	<b>23</b>	<b>11</b>	<b>86%</b>
EBIT	4	15	11	> 100%
CAPEX	4	15	12	> 100%

Table 21: Results of the Wind Power Division (PLN m)

PLN m	2017	2018	2019	2020	Change 2020/2019	Change 2020/2019 (%)
Revenues	94	122	154	144	(10)	-6%
<b>EBITDA</b>	<b>42</b>	<b>88</b>	<b>110</b>	<b>106</b>	<b>(5)</b>	<b>-4%</b>
EBIT	2	305	69	59	(10)	-15%
CAPEX	-	9	21	130	109	> 100%

PLN m	Q4 2019	Q4 2020	Change	Change (%)
Revenues	43	44	1	1%
<b>EBITDA</b>	<b>26</b>	<b>31</b>	<b>5</b>	<b>19%</b>
EBIT	25	29	4	15%
CAPEX	11	0	(11)	-96%

Table 22: Results of the Ostrołęka Power Plant Division (PLN m)

PLN m	2017	2018	2019	2020	Change 2020/2019	Change 2020/2019 (%)
Revenues	659	746	762	766	4	1%
<b>EBITDA</b>	<b>189</b>	<b>124</b>	<b>39</b>	<b>(37)</b>	<b>(77)</b>	<b>&lt; -100%</b>
EBIT	195	64	(450)	(473)	(23)	-5%
CAPEX	49	168	109	83	(26)	-24%



PLN m	Q4 2019	Q4 2020	Change	Change (%)
Revenues	155	258	103	67%
<b>EBITDA</b>	<b>(4)</b>	<b>(5)</b>	<b>(0)</b>	<b>-10%</b>
EBIT	(181)	46	227	> 100%
CAPEX	32	23	(9)	-28%

Table 23: Results of the Other and Adjustments Division (PLN m)

PLN m	2017	2018	2019	2020	Change 2020/2019	Change 2020/2019 (%)
Revenues	180	195	214	179	(34)	-16%
<b>EBITDA</b>	<b>40</b>	<b>13</b>	<b>(10)</b>	<b>(17)</b>	<b>(7)</b>	<b>-65%</b>
EBIT	(4)	(11)	(119)	39	158	> 100%
CAPEX	25	50	29	38	9	31%

PLN m	Q4 2019	Q4 2020	Change	Change (%)
Revenues	67	58	(9)	-14%
<b>EBITDA</b>	<b>2</b>	<b>(19)</b>	<b>(21)</b>	<b>&lt; -100%</b>
EBIT	(82)	59	141	> 100%
CAPEX	8	3	(5)	-61%

### 5.3. Sales Business Line

#### 5.3.1. Business and operating activities

Table 24: Sale of electricity (GWh)

Business	2017	2018	2019	2020	Change 2020/2019	Change 2020/2019 (%)
<b>Retail sales of electricity</b>	<b>20,615</b>	<b>19,777</b>	<b>19,681</b>	<b>18,782</b>	<b>(898)</b>	<b>-5%</b>
<b>Sales of electricity in the wholesale market, including:</b>	<b>3,200</b>	<b>3,991</b>	<b>4,508</b>	<b>4,058</b>	<b>(449)</b>	<b>-10%</b>
<i>Sales of energy to the balancing market</i>	476	631	943	1,254	312	33%
<i>Sales of energy to cover network losses to Energa-Operator</i>	-	1,490	1,000	-	(1,000)	-100%
<i>Other wholesale</i>	2,724	1,871	2,565	2,804	239	9%
<b>Total sales of electricity</b>	<b>23,815</b>	<b>23,769</b>	<b>24,188</b>	<b>22,841</b>	<b>(1,348)</b>	<b>-6%</b>

Sales of electricity by the Sales Business Line in GWh	Q4 2019	Q4 2020	Change	Change (%)
<b>Retail sales of electricity</b>	<b>5,013</b>	<b>4,896</b>	<b>(118)</b>	<b>-2%</b>
<b>Sales of electricity in the wholesale market, including:</b>	<b>1,112</b>	<b>742</b>	<b>(369)</b>	<b>-33%</b>
<i>Sales of energy to the balancing market</i>	236	307	71	30%
<i>Sales of energy to cover network losses to Energa Operator</i>	240	-	(240)	-100%
<i>Other wholesale</i>	635	435	(200)	-31%
<b>Total sales of electricity</b>	<b>6,125</b>	<b>5,638</b>	<b>(487)</b>	<b>-8%</b>

In 2020, the total volume of electricity sold by the Sales Business Line declined by 6% (or, 1.3 TWh) vs. 2019. It resulted from lower sales on the wholesale and retail markets.

In 2020, the sale volume on the retail market dropped by 5% (or, 0.9 TWh) yoy. Within retail sales, a decrease was noted in the volume of sales to business customers (down by 8%) along with an increase in sales to households (by 4%). The level and structure of energy consumption in the reporting period was affected by the COVID-19 pandemic which caused lower energy consumption by business customers (economic slowdown and restrictions), coupled with an increase in energy consumption by households (lockdown and remote work). The effect has been seen since March 2020, or since the start of the pandemic.

As at the end of Q3 2020, the number of end consumers of electricity (Energy Consumption Points) of the Sales Business Line amounted to 3.1 m, an increase of approx. 45,000 customers yoy. The customer base increased mainly in the G tariff group (households).

Meanwhile, electricity sales to the wholesale market in 2020 fell by 0.5 TWh (or, 10%) compared to 2019. The reason behind the volume drop in 2020 was the lack of energy sale to cover grid losses to Energa Operator SA – another seller was selected for that period.

In Q4 2020 the trend was the same to that for the whole year. The total volume of electricity sold by the Sales Business Line declined by 8% (or 0.5 TWh) vs. Q4 2019. Retail sales decreased by 2% quarterly, which means a falling rate on a lower scale than in the full-year perspective due to the lower negative impact of the pandemic effect in the last months of 2020 compared to Q2 and Q3. The volume of sales of energy in the wholesale market fell by 33% compared to Q4 2019, which means a greater downwards trend than the all-year trend. As in the annual aspect, this is also related to the lack of energy sales in 2020 to Energa Operator SA to cover for the grid losses, as well as the weakening effect of the pandemic manifested by the scale of resale of electricity surplus on a scale lower than in previous months.

## **Customer service**

### **Product offers for individual customers**

Until August 2020, Energa Obrót continued to sell product offers as part of the “New Product Policy for Individual Customers”. The product portfolio consisted of the Basic Offer, along with five promotional offers which provided for additional benefits to customers at the same price. In addition, product portfolio was supplemented by additional special offers dedicated to specific customers or sales channels, e.g. Prąd z ekstra premią (Electricity with extra bonus), Oferta rabatowa (Discounts) or Oferta dla mobilnych (Offers for mobile customers). On 1 June two new offers were introduced without home assistance insurance, i.e. Basic Plan 100 and Basic Plan 50.

In Q3 2020 the number of offers in the portfolio was modified. From August 2020 the number of offers was ultimately reduced from 18 to 11 and 2 temporary offers were kept until stocks were available (Energia do nauki). The portfolio includes offers with the best sales and those dedicated to specific target groups of customers.

### **Product offers for the SOHO segment customers (small enterprises)**

In 2020 sales of products based on assumption of the “New Product Policy for SOHO Customers” was continued to maintain the existing sales strategy targeted at winning customer loyalty and cross-selling as part of existing Mass Offerings.

Last year, environmental-friendly products were introduced to the SOHO offering. Customers were guaranteed that the origin of electricity they use under Pakiet Eko Firma (from 1 January 2020) / Pakiet Eko Firma+ (from 1 March 2020) plans would be certified. As part of the offer, Energa Obrót will purchase guarantees of electricity origin for electricity generated from renewable energy sources within the meaning of art. 120 of the Act of 20 February 2015 on Renewable Energy Sources to certify that the RES electricity was generated in the amount corresponding to the amount of electricity declared by customers for use under Eko Firma/ Eko Firma+ plans. In addition, 5 LED bulbs were added to Eko Firma+ plans to consolidate the environmental and economical message.

### **Gas offers for individual and SOHO customers**

From July 2020 gas offers were resumed and active sales of mass offerings in W1-W4 tariff groups were carried out for individual and SOHO customers. “Błękitna energia dla domu” and “Błękitna energia dla Firm” offers were competitive to proposals from the largest gas retailer in Poland.

## **Sales of insurance in agency model**

Energa Obrót concluded two active agency agreements with Powszechny Zakład Ubezpieczeń S.A. and Link4 Towarzystwo Ubezpieczeń S.A. and has been registered as an Agent of PZU S.A. and Link4 TU S.A. in the register of insurance agents in the PFSA.

In 2020, sales of individual real property insurance, motor and travel insurance were continued in all own showrooms, via the Internet and via the telephone.

## **2020 product research**

In August 2020, work on product research for individual customers, SOHO customers and prosumers started. The strategic goal was to identify product concepts that were the most attractive among target groups and offered high sales potential.

The purpose of the research was to examine the needs of customers in order to create offers that met their needs. Based on research, taking into account Product Attractiveness and Willingness to Choose Offer indicators, concepts with the greatest potential were chosen with scheduled implementation of offers in 2021.

The research results will allow for the development of various communication messages tailored to the needs of customers in a given segment. This will improve marketing communication of the proposed offers and contribute to higher sales through greater customer loyalty.

## **Development of digital sales channels and customer service**

The project entitled "System for Online Sale and Customer Service" started in 2018 was completed on 9 January 2020 and delivered into use for all Energa Obrót customers. All customers visiting [www.energa.pl](http://www.energa.pl) were redirected to the modern platform with new forms designed for conclusion of electricity contracts via the Internet.

During the Covid-19 pandemic and introduction of lockdown, the web platform was one of the main channels for concluding contracts. The system maintained continuity of work and transferred customer data to the domain system.

Compared to 2019, there was an increase in the number of ECPs in 2020, an increase in user sessions on the platform and a drop in tariff share in the channel portfolio.

## **Sale of efficiency products**

In 2020 Energa Obrót obtained many customers for new efficiency products comprising solutions that support reasonable, conscious and responsible use of existing energy resources in the Business Market area, dedicated to business customers interested in improving their energy efficiency. The following products from the portfolio were most popular: usage profile visualisation, engineering design and photovoltaic installations. The high quality of the services offered opens up the company's opportunities to sell new products.

## **Process optimisation**

To improve efficiency of operating processes at Energa Obrót, actions were undertaken to automate and improve, in accordance with the Lean Management methodology. As regards automation, many robots were deployed, which worked for thousands of hours in 2020. They can work 24 hours a day, 7 days a week. Their task is to automate repetitive processes where large amounts of data are processed. In addition, report automation was implemented as well as new or modified functionalities of the systems. In the excellence area, steps that do not add value to selected processes have been eliminated and the most effective sequences of activities in a given area or cross-section were created. Additionally, the Employee Idea Programme was launched to create a working environment that allows employees to streamline processes. In 2020, dozens of ideas were submitted and significant savings were achieved. The option of educating employees in the field of Lean Management tools was also introduced.

### 5.3.2. Financial results

Figure 27: Results of the Sales Business Line (PLN m)

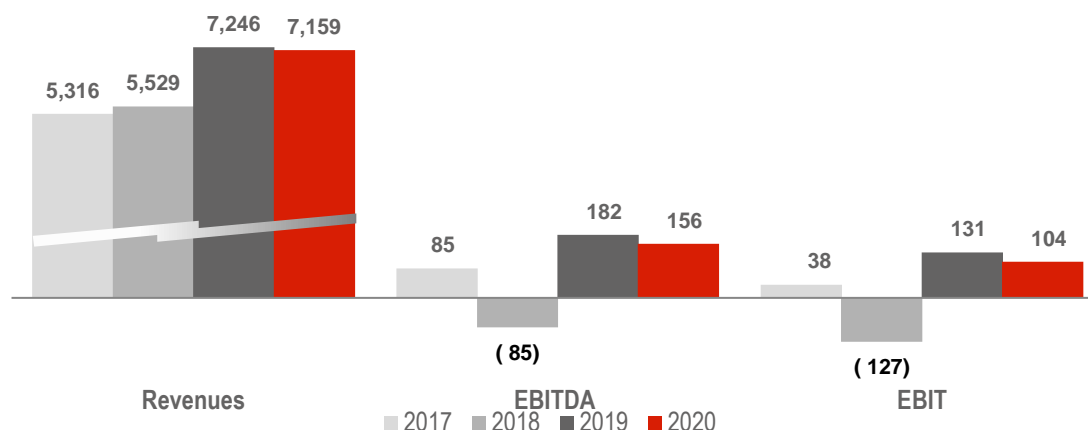
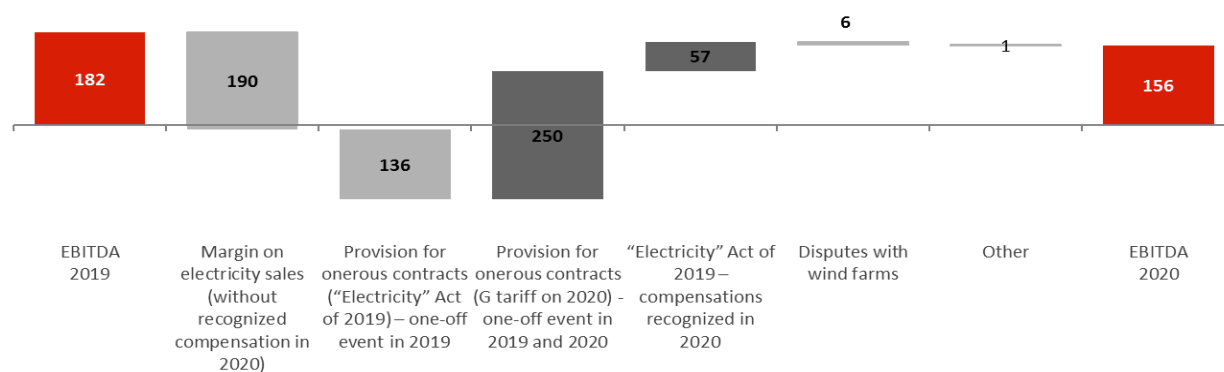


Table 25: Results of the Sales Business Line (PLN m)

PLN m	2017	2018	2019	2020	Change 2020/2019	Change 2020/2019 (%)
Revenues	5,316	5,529	7,246	7,159	(87)	-1%
<b>EBITDA</b>	<b>85</b>	<b>(85)</b>	<b>182</b>	<b>156</b>	<b>(26)</b>	<b>-14%</b>
amortization and depreciation	43	39	52	52	-	0%
impairment of non-financial non-current assets	4	3	(1)	-	1	100%
EBIT	38	(127)	131	104	(27)	-21%
Net result	29	(100)	90	68	(22)	-24%
CAPEX	43	45	44	66	22	50%

PLN m	Q4 2019	Q4 2020	Change	Change (%)
Revenues	1,864	1,891	27	1%
<b>EBITDA</b>	<b>(76)</b>	<b>42</b>	<b>118</b>	<b>&gt; 100%</b>
amortization and depreciation	13	14	1	8%
impairment of non-financial non-current assets	-	-	-	0%
EBIT	(89)	28	117	> 100%
Net result	(71)	14	85	> 100%
CAPEX	18	33	15	83%

Figure 28: EBITDA bridge of the Sales Business Line (PLN m)



The EBITDA of the Sales Business Line in 2020 totalled PLN 156 m, down by PLN 26 m, or 14%, compared to the result achieved in 2019 (EBITDA of PLN 182 million). Line EBITDA in 2020 was 8% of the Group EBITDA vs. 9% in 2019.

Revenues of the Sales Business Line in 2020 amounted to PLN 7,159 m, down by PLN 87 m in comparison to 2019. The main reason for the revenue decline was mainly related to a lower sales volume of energy and gas.

The decline of margin on electricity sale (down by PLN 190 m) had the key impact on the yoy decrease in EBITDA of the Sales Business Line. The margin decline was mainly driven by two factors, notably the need to sell electricity to some households at disadvantageous pricing terms under a tariff approved by the President of the Energy Regulatory Office as well as COVID-19 pandemic. In the first case, the rates under the 2020 tariff approved by the President of the Energy Regulatory Office did not cover the full costs arising from the contracts implementation. In the second case, following a drop in the energy consumption by retail customers it was necessary to sell energy excess (previously contracted to cover customer needs) at a loss.

The following one-off events had a material impact on EBITDA of the Sales Business Line:

- Provision for burdensome tariff G contracts in connection with the 2019 "electricity" act. That provision, established at the end of 2018, was successively dissolved throughout 2019 following implementation of the compensation mechanism, which had a positive impact on 2019 result. There was no dissolution of the provision in 2020, which had a negative effect on the result yoy in the amount of PLN 136 million.
- Provision for burdensome tariff G contracts in connection with the approval of the tariff by the President of the Energy Regulatory Office for the year 2020. This provision was set up at the end of 2019 at PLN 125 million as a charge on that year's result. In 2020 it was dissolved due to materialization of that event as part of energy sales margin (earning lower revenues from sales of electricity from customers settled under tariff G). As a result of this, the positive impact of this provision on the yoy EBITDA change is PLN 250 million.
- Compensation recognized in 2020 at PLN 57 million arising out of final settlement of the 2019 "electricity" act.
- Disputes with wind farms the aggregate financial consequences of which (mainly through an increase in provisions) contributed to EBITDA's decline by PLN 6 m yoy.

The EBITDA of the Sales Business Line in Q4 2020 totalled PLN 42 m, up PLN 118 m compared with the corresponding period of 2019. The increase in the result in Q4 2020 yoy was mainly due to the low base effect. At the end of 2019, a provision of PLN 125 million was created for contracts incurring charges relating to the unfavourable G tariff for 2020. In addition, compensation resulting from the final settlement of the 2019 "electricity" act was recognised in December 2020, increasing the Q4 2020 result by PLN 60 million. The COVID-19 pandemic continued to negatively impact results of the Sales Business Line in Q4 2020, however, its scale was lower than in previous quarters.



Karcino Wind Farm

## **Financial and assets situation of Energa SA**



## 6. FINANCIAL AND ASSETS SITUATION OF ENERGA SA

### 6.1. Rules of preparing the standalone consolidated financial statements

The standalone financial statements of Energa SA for the twelve months ended 31 December 2020 were prepared:

- in accordance with the International Financial Reporting Standards endorsed by the European Union;
- on a historical cost basis, except for financial instruments measured at fair value through profit or loss and hedging derivatives;
- in millions of Polish zlotys ("m PLN"), unless otherwise specified;
- based on the assumption that Energa SA would continue as a going concern in the foreseeable future and without any evidence indicating that the continuation of the Company business activities as a going concern may be at risk.

To the extent not covered by the IFRS, Energa maintains its accounting books in accordance with the accounting policy (principles) set forth by the Accounting Act of 29 September 1994 (Journal of Laws of 2016, item 1047) and its secondary legislation (the "Accounting Act", "Polish Accounting Standards", "PAS").

The accounting principles (policy) applied to prepare the annual standalone financial statements are presented in note 8 to the annual standalone financial statements of Energa SA for the twelve months ended 31 December 2020.

### 6.2. Explanation of the economic and financial data disclosed in the annual standalone financial statements

Table 26: Standalone statement of profit or loss (PLN m)

	2019	2020	Change	Change (%)
Sales revenues	86	87	1	1%
Cost of sales	(63)	(67)	(4)	6%
<b>Gross profit</b>	<b>23</b>	<b>20</b>	<b>(3)</b>	<b>-13%</b>
Other operating income	9	11	2	22%
General and administrative expenses	(96)	(111)	(15)	16%
Other operating expenses	(22)	(30)	(8)	36%
Dividend income	644	510	(134)	-21%
Other financial income	184	241	57	31%
Impairment losses for shares	(794)	(176)	618	-78%
Other financial costs	(361)	(674)	(313)	87%
<b>Loss before tax</b>	<b>(413)</b>	<b>(209)</b>	<b>204</b>	<b>-49%</b>
Income tax	39	12	(27)	-69%
<b>Net loss</b>	<b>(374)</b>	<b>(197)</b>	<b>177</b>	<b>-47%</b>

Energa's operating income arises mainly from services provided by the Company to other Group companies, in particular in the area of marketing, IT, finance and lease of office space (in the form of recharge). In 2020 this category of revenue went up slightly (by 1%).

The main source of the Company's financial income in 2020 was dividend income, which amounted to PLN 510 m (down by PLN 134 m against 2019). Interest income increased by PLN 28 m, with the parallel decline of interest expenses by PLN 85 m.

In 2020 impairment losses of PLN 176 million on shares and surcharges of Energa Kogeneracja Sp. z o.o. (PLN 73 million) and Energa Finance AB (PLN 103 million) were created. In addition, a provision was set up at PLN 218 million for settlement with Elektrownia Ostrołęka Sp. z o.o. following the proposal made by the general contractor to settle the investment involving

construction of Ostrołęka Power Plant C and the loan to Elektrownia Ostrołęka Sp. z o.o was written down at PLN 188 million. These operations were reflected in the financial costs.

These factors affected Energa's net result, which was PLN -197 million.

Table 27: Standalone statement of financial position (PLN millions)

	As at 31 December 2019	As at 31 December 2020	Change	Change (%)
<b>ASSETS</b>				
<b>Non-current assets</b>				
Intangible assets	14	8	(6)	-43%
Right-of-use assets	50	40	(10)	-20%
Shares in subsidiaries, associates and joint ventures	6 715	6 539	(176)	-3%
Bonds	1 719	1 716	(3)	-0%
Other non-current financial receivables	2 764	2 810	46	2%
Deferred tax assets	39	44	5	13%
Derivative financial instruments	3	68	65	> 100%
Other non-current assets	160	201	41	26%
	<b>11 464</b>	<b>11 426</b>	<b>(38)</b>	<b>-0%</b>
<b>Current assets</b>				
Cash pooling receivables	831	1 181	350	42%
Trade receivables and other current financial receivables	310	335	25	8%
Bonds	41	42	1	2%
Current tax receivables	37	27	(10)	-27%
Cash and cash equivalents	822	89	(733)	-89%
Derivative financial instruments	26	1	(25)	-96%
Other current assets	42	97	55	> 100%
	<b>2 109</b>	<b>1 772</b>	<b>(337)</b>	<b>-16%</b>
<b>TOTAL ASSETS</b>	<b>13 573</b>	<b>13 198</b>	<b>(375)</b>	<b>-3%</b>
<b>EQUITY AND LIABILITIES</b>				
<b>Equity attributable to equity holders</b>				
Share capital	4 522	4 522	-	-
Reserve capital	1 018	1 018	-	-
Supplementary capital	2 035	1 661	(374)	-18%
Cash flow hedge reserve	(52)	(96)	(44)	-85%
Retained earnings/(non-covered losses)	(330)	(153)	177	54%
<b>Total equity</b>	<b>7 193</b>	<b>6 952</b>	<b>(241)</b>	<b>-3%</b>
<b>Non-current liabilities</b>				
Loans and borrowings	2 398	2 674	276	12%

**Energa SA's Management Board Report on the activities  
of the Energa Capital Group and Energa SA in 2020**

Liabilities for debt securities issued	1 065	1 154	89	8%
Non-current provisions	-	16	16	-
Non-current deferred income and grants	52	43	(9)	-17%
Derivative financial instruments	72	5	(67)	-93%
Non-current lease liabilities	41	32	(9)	-22%
Other non-current financial liabilities	-	2	2	-
	<b>3 628</b>	<b>3 926</b>	<b>298</b>	<b>8%</b>
<b>Current liabilities</b>				
Cash pooling liabilities	192	266	74	39%
Trade liabilities and other financial liabilities	19	22	3	16%
Current lease liabilities	11	13	2	18%
Derivative financial instruments	-	12	12	-
Current portion of loans and borrowings	2 459	1 660	(799)	-32%
Liabilities for debt securities issued	10	11	1	10%
Short-term provisions	-	221	221	-
Deferred income and grants	11	9	(2)	-18%
Accruals	11	12	1	9%
Other current liabilities	39	94	55	> 100%
	<b>2 752</b>	<b>2 320</b>	<b>(432)</b>	<b>-16%</b>
<b>Total liabilities</b>	<b>6 380</b>	<b>6 246</b>	<b>(134)</b>	<b>-2%</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>13 573</b>	<b>13 198</b>	<b>(375)</b>	<b>-3%</b>

As at 31 December 2020, the balance sheet total of Energa was PLN 13,198 m, down by PLN 375 m (3%) vs. 31 December 2019. As regards non-current assets, the most important change concerned the "Shares in subsidiaries, associates and joint ventures" item and resulted from creation of impairment loss on shares in the amount of PLN 176 million. In turn, on the current assets side, changes were mainly observed in cash (the reasons for the change in cash were described later on in the section on cash flows).

On the liabilities side, a significant change was recorded under loans and borrowing (in the current part partially offset by the long-term part) and was related to the partial repayment of the loan from Energa Finance AB (at EUR 389 million) due to the maturity of Eurobonds issued by the said company.

That is reflected in the balance of cash and cash equivalents, which went down in 2020 by PLN 733 m yoy.

Energa's result for 2019 totalling PLN -374 m was fully covered from supplementary capital, which resulted in the decrease in this item in equity. As at 31 December 2020, 52.7% of the Company's operations were financed by equity, vs. 53.0% at the end of 2019.

Table 28: Standalone statement of cash flows (PLN million)

	2019	2020	Change	Change (%)
Net cash from operating activities	(61)	17	44	72%
Net cash from investing activities	327	182	(145)	-44%
Net cash from financial activities	(1 505)	(902)	603	40%
Decrease in net cash and cash equivalents	(1 239)	(737)	502	41%
Cash at the end of the period	826	89	(737)	-89%

As at 31 December 2020, Energa held PLN 89 m in cash. Total net cash flows from operating, investing and financial activities of the Company in 2020 were negative at PLN -737 m, vs. PLN -1,239 in 2019 (this resulted, among others, from lower financial involvement in Ostrołęka Power Plant C Project than in 2019).

The negative cash flows from operating activities in 2019 and 2020 resulted mainly from a lower operating result adjusted for non-cash items.

The investing activities recorded a positive flow. This was mainly the effect of the dividend received from Energa-Operator SA, interest received from loans granted and repayments of loans granted from Energa-Operator SA and ENEA S.A., at PLN 284 million and PLN 170 million respectively, compensated with granting of the loan to Energa-Operator SA (PLN 500 million) and Ostrołęka Power Plant (PLN 180 million).

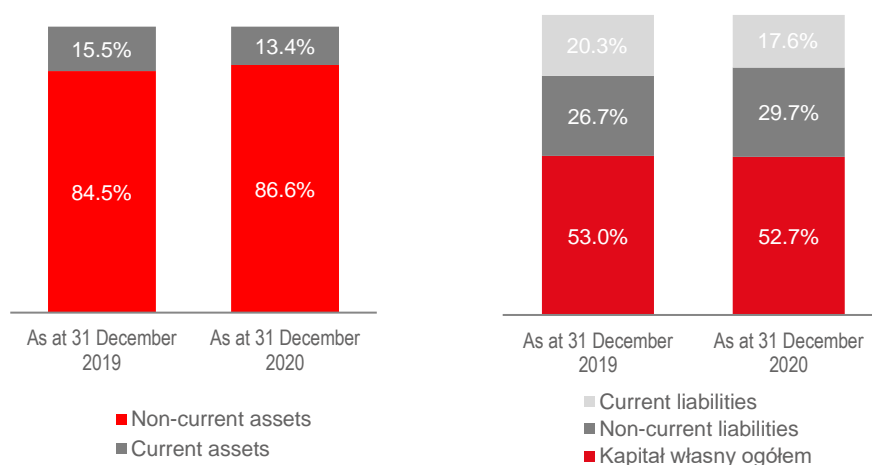
The negative net cash flows from financial activities were mainly related to repayment of loans, which to a large extent were compensated with proceeds from the same title (per balance amount of PLN -673 million). Compared to the previous period, the negative value of the item decreased due to the fact that in 2019 its value was significantly affected by redemption of domestic bonds from Energa-Operator SA.

### 6.3. Structure of assets and liabilities in the standalone statement of financial position

Table 29: Structure of the annual standalone statement of financial position

	As at 31 December 2019	As at 31 December 2020
<b>ASSETS</b>		
Non-current assets	84.5%	86.6%
Current assets	15.5%	13.4%
<b>TOTAL ASSETS</b>	<b>100.0%</b>	<b>100.0%</b>
<b>EQUITY AND LIABILITIES</b>		
<b>Total equity</b>	<b>53.0%</b>	<b>52.7%</b>
Non-current liabilities	26.7%	29.7%
Current liabilities	20.3%	17.6%
<b>Total liabilities</b>	<b>47.0%</b>	<b>47.3%</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>100.0%</b>	<b>100.0%</b>

Figure 29: Structure of assets and liabilities



As at 31 December 2020, non-current assets represented 86.6%, and current assets 13.4% of Energa's total assets. Equity accounted for 52.7% of equity and liabilities as at 31 December 2020. The remaining portion of equity and liabilities were liabilities, with financial liabilities as the main item.

### 6.4. Description of significant off-balance sheet items

There are no significant contingent assets and liabilities in the Company.



Pierzchały Hydroelectric Power Station

## Risk management



## 7. RISK MANAGEMENT

### 7.1. Integrated Risk Management System of the Energa Group

The Integrated Risk Management System (hereinafter: IRMS) has been in place at the Energa Group since 2011 and is supervised centrally by Energa.

The IRMS has been implemented on the basis of a risk management process which is harmonised across the whole Group. It is based on international standards (ISO, COSO, FERMA) and spans all organisational levels and business lines. The risk management process consists of various interrelated stages that form a continuous process. It starts at the level of organisational units and moves on to top executives and from the level of Group companies to Energa as the Parent Company.

Figure 30: The Energa Group risk management process



The key document underlying the risk management process at the Energa Group is the *Risk Management Policy*, which defines, among other things, the harmonised approach, risk management principles and roles in the risk management process.



**Management Board:** defines the risk management focus, approves risk reporting outcomes and accepts risk appetite.



**Risk Unit:** coordinates the risk management process, conducts risk reviews and risk management strategy reviews, develops reports summarising the outcomes of risk reviews.



**Risk Owner:** manages risk, develops and implements the risk management strategy, monitors risk and reports its current level to the Risk Unit.



**Employees:** report risks and incidents.



**Audit Committee:** monitors the effectiveness of the risk management system.



**Audit and Control Unit:** performs an independent and objective assessment of the risk management system and incorporates the outcomes of risk reviews as part of performance of its tasks.

As part of the Integrated Risk Management System, the Energa Group conducts the following activities:



**risk review** – involving identification and assessment of risks and defining the risk management strategy [in semi-annual cycles],



**review of risk management strategy** – involving updates of the risk management strategy and verification of risk mitigation measures taken by Risk Owners (in quarterly cycles),



**ongoing risk management** – involving identification and assessment of risks and definition of the risk management strategy, in the context of current events relevant to the Energa Group.



**ad hoc monitoring of key risks** – verification of validity of factors and effects as well as the implementation status of action plans, affecting the assessment of key risks.

Based on the semi-annual risk reviews, information on the risk exposure of the Energa Group is prepared. Relying on that information, the Management Board of Energa decides on the risk appetite level and approves the risk management strategy. The results of risk reviews are transmitted to the Risk Owners and reported to the Audit Committee.

Information on the implementation status of risk action plans is prepared in the semi-annual cycle as well, in-between risk reviews. The Management Board of Energa decides whether to accept a risk management strategy or indicates the necessary steps to take.

As part of the IRMS development efforts, in 2020 the Energa Group:

- synergy was developed between the existing registers in Energa SA that provide information on risk events so that the risk event register of the Energa Group is complete and covers all areas of the Company,
- the process of reviewing the risk management strategy was improved by adding the status of actions implemented against risks, developing a consistent report template and introducing the obligation to have the results of the review approved by a resolution of the management board,
- a new risk event registration form was developed, which provides more information about the event and allows for an in-depth analysis of the event,
- Microsoft SharePoint system was upgraded to support archiving and versioning of documentation, reporting events, management of rights to ensure better quality and stability of the system,
- a synthetic list of contacts was made available to employees to report events from various areas of activity, training material in the form of e-learning was prepared for employees and Risk Owners in the Energa Group.

## 7.2. Description of major factors and risks

Key risks identified at the level of Energa SA and Group companies for each of the 4 Energa Group Risk Model areas are presented below, together with a description of key risk mitigation measures.

### Strategic area

Table 30: Key strategic risks identified at the level of Energa and Group companies

Risk	Description of the risk and its potential effects	Control mechanisms used
<b>Risks of strategic programmes</b>	Risks involved in the implementation of the Group Strategy. Key risks in this area are associated with disruptions and major deviations for KPIs set for strategic programmes, among others with regard to the use of revenue decoupling regulations, modernisation of grid assets and the implementation of a new customer-centric business model and development of new business areas. Materialisation of risks may lead to lower EBITDA, loss of part of the market / competitive advantage, lack of return on investments, deterioration of image or social impacts.	<ul style="list-style-type: none"> <li>• Running programmes in project-based structures;</li> <li>• Ongoing monitoring of progress in the implementation of individual programmes;</li> <li>• Ongoing risk reporting;</li> <li>• Framework agreements with suppliers;</li> <li>• Implementation of strategic programmes based on years of experience and competent resources as well as co-operation with third parties.</li> </ul>
<b>Project / investment risks</b>	Risks related to investment projects in the Energa Group among others regarding implementation of the project involving construction of a new gas unit in Ostrołęka and capital involvement of the Energa Group in other projects, including development projects. Materialisation of risks may lead to non-achievement of the expected return on investments, the need to incur additional expenses, loss of revenues, delays in implemented projects, the need to repay subsidies, escalation of claims sought in court, and image-related consequences.	<ul style="list-style-type: none"> <li>• Contracts with experienced and reputable contractors;</li> <li>• Contracts and agreements concluded;</li> <li>• Ongoing monitoring and control of investments at the operating and strategic levels (Committees and Top Executives);</li> <li>• Ongoing cooperation with law firms;</li> <li>• Carrying out investments on project basis;</li> <li>• Periodic and ongoing risk identification.</li> </ul>
<b>Market risks</b>	Risks involved in trading in electricity, fuels and property rights, including in the context of price volatility, forward market and SPOT market fluctuations, meeting customer demand or regulatory and legal requirements. The risks also involve PSE's declining demand for the energy forcefully produced by the assets in Ostrołęka and securing CO2 emission allowances. Materialisation of risks may lead to difficulties in the achievement of strategic objectives, financial losses, margin loss, changes to risk exposures, customer attrition, increased costs of operation, worse operating flexibility in individual markets.	<ul style="list-style-type: none"> <li>• Risk management in core selling activities;</li> <li>• Processes and principles relating to contracting, trading and purchasing areas;</li> <li>• Use of advisory and legal services;</li> <li>• Production cost control.</li> </ul>

## Legal and regulatory area

Table 31: Key legal and regulatory risks identified at the level of Energa SA and Group companies

Risk	Description of the risk and its potential effects	Control mechanisms used
<b>Regulatory risk</b>	The risk concerns legislative changes affecting the functioning of the Energa Group's individual Business Lines. Materialisation of risks may lead to the modification of investment plans, generation of lower than planned revenues or rise in operating expenses, as well as imposition of fines if legislation is not complied with. The risk additionally offers an opportunity to adopt new legal solutions which could enable raising of additional funds or guarantee a support system for the Group's assets.	<ul style="list-style-type: none"> <li>• Monitoring of changes in law;</li> <li>• Participation in the legislative process;</li> <li>• Participation of the Group's representatives in the activities of industry associations.</li> </ul>
<b>Risk of fraud</b>	The risk concerns situations and actions related to fraud, including potential conflicts of interest, corruption or misappropriation on the part of the employees of the Energa Group companies. The risk involves potential threat of fraudulent and corrupt practices in the operational processes, as well as in connection with implementation of projects subsidised from the EU funds. Materialisation of risks may lead to financial losses and may entail procedures conducted by law enforcement authorities against employees or bodies of the Group companies. The risk may have an adverse effect on the Energa Group's image and reputation, result in prohibition in applying for public funds (EU or domestic funds), and undermine employees' trust in supervisors, colleagues and the organisation as a whole.	<ul style="list-style-type: none"> <li>• Internal regulations in the field of fraud, creating and settling orders for projects co-financed with EU funds, and regulations applicable to the procurement process;</li> <li>• Training for employees (including, without limitation, anti-corruption), including the e-learning platform;</li> <li>• The organisation's three lines of defence (internal control system, risk management system and internal audit);</li> <li>• External controls;</li> <li>• Investigations.</li> </ul>
<b>Legal risk</b>	The risk is associated with court and administrative proceedings carried out by or against the Group companies. The risk is also related to the possibility of claims for damages by landowners and claims in the event of improper performance of contracts. Materialisation of risks may give rise to an obligation to pay damages and sanctions, or to grant customer discounts arising from the provisions of law.	<ul style="list-style-type: none"> <li>• Cooperation with law firms;</li> <li>• A system for monitoring key cases;</li> <li>• Internal regulations in the field of legal aid co-ordination in the Energa Group, as well as legal statuses of energy real property;</li> <li>• Issuing of compliance opinions on contracts;</li> <li>• Obligation or legal and material agreements which govern establishing of transmission/land easement.</li> </ul>

## Operations area

Table 32: Key operational risks identified at the level of Energa and Group companies

Risk	Description of the risk and its potential effects	Control mechanisms used
<b>Coronavirus risk and its impact on the Energa Group</b>	The risk is related to the SARS-CoV-2 virus and the spread of COVID-19 disease caused by this virus, as well as the possible consequences of the virus/ disease affecting the operations of the Energa Group companies. The potential consequences of this risk may affect the health and life of employees as well as stakeholders of the Group. The risk may also cause higher costs (purchases of goods and services), lost revenues (lower sales volume, assuming a decrease in demand for electricity – losses on the sales of electricity).	<ul style="list-style-type: none"> <li>• The COVID-19 risk monitoring team and working teams in each company;</li> <li>• Purchase of disinfectants, contactless thermometers, etc.;</li> <li>• Information communications;</li> <li>• Remote staggered shifts;</li> <li>• Suspension (reduction to a minimum) of business trips;</li> <li>• Replacing traditional meetings with remote communication tools (skype, phone, etc.);</li> <li>• Restriction of access for outsiders to the facilities of Energa Group companies;</li> <li>• Designation of pickup zones.</li> </ul>

<b>Risk to the security of persons and property</b>	<p>The risk associated with unauthorised access to facilities, including power equipment. The risk additionally involves the safety and security of employees and third parties present on the premises of the Group's companies, as well as incidents related to terrorism and sabotage. Potential consequences of the risk may involve threat to security of the grid's operation, loss/destruction of property or interruption of operational continuity.</p>	<ul style="list-style-type: none"> <li>• Assurance of safety and security of persons and corporate assets by a dedicated Group company;</li> <li>• Security Plans, including Critical Infrastructure Security Plans;</li> <li>• Internal safety and security policies;</li> <li>• Business Continuity Plans of the Group Companies;</li> <li>• Property insurance, third party liability insurance and insurance for lost revenues;</li> <li>• Physical and technical security systems for the Group's facilities;</li> <li>• Security incident monitoring within the Group;</li> <li>• Employee training.</li> </ul>
<b>Risk of disruption of business continuity</b>	<p>The risk associated with the disruption of critical distribution activities, i.e. continuity of the distribution service meeting the required performance security criteria of the distribution system and business continuity in the generating area. The risk takes into account issues related to the availability of devices, their efficiency and performance, as well as the impact of atmospheric and hydrological factors and random events. Materialisation of risks may put human life and property in danger and lead to failures and unavailability of critical process resources (sites, systems, employees).</p>	<ul style="list-style-type: none"> <li>• Business Continuity Strategy;</li> <li>• Emergency Procedures;</li> <li>• Critical Infrastructure Security Plan;</li> <li>• Rules of proceeding in emergency;</li> <li>• Backup sites;</li> <li>• Periodic testing within the business continuity management system;</li> <li>• Insurance;</li> <li>• Preventive actions, such as periodic inspections of infrastructure, performance of planned repairs and investments.</li> </ul>
<b>Risk associated with social relations and trade unions</b>	<p>This risk involves dialogue with the social partner, specifically trade unions, on the process of maintenance of the relationship between the employer and employees, as well as the process of communication with employees. Materialisation of risk may give rise to claims, business impairments or costs associated with possible downtime (strikes or protests) or employee departures, as well as image-related impacts.</p>	<ul style="list-style-type: none"> <li>• Conducting the social dialogue;</li> <li>• Enforcing provisions of collective bargaining agreements and collective agreements;</li> <li>• Communicating with trade union organisations and informing employees about planned changes;</li> <li>• Negotiations.</li> </ul>
<b>Risk of human resources management</b>	<p>The risk relates to personnel support and ensuring the continuity of employment, while maintaining cost rationalization of employment. Materialization of this risk may lead to increased costs of remuneration, benefits and training, as well as image-related consequences and disputes with employees.</p>	<ul style="list-style-type: none"> <li>• Monitoring the implementation of the remuneration budget and employment structure;</li> <li>• Building and monitoring of the implementation of the training plan and training budget;</li> <li>• Support for payroll and HR processes by IT systems;</li> <li>• Agreement for HR and payroll services with a dedicated entity from the Group.</li> </ul>
<b>Customer settlements risk</b>	<p>The risk is related to disruption of continuity and availability of billing systems to users in connection with migrations, which mean lead to, among others, incorrect invoicing of customers, as well as a reduction in the NPS indicator value. Materialisation of risk may lead to a drop in customer satisfaction (increased complaints), deterioration in the Group's image, customers' departure to competition, and additional costs of elimination of errors/irregularities.</p>	<ul style="list-style-type: none"> <li>• Monitoring of supplied measurement data/issued invoices;</li> <li>• Servicing agreement with vendors of billing systems enabling swift elimination of critical errors;</li> <li>• Internal instructions governing, among other things, adjustments, interest, double invoicing control mechanism, prosumer sales and settlements or closing of a month.</li> </ul>

## Finance area

Table 33: Key financial risks identified at the level of Energa and Group companies

Risk	Description of the risk and its potential effects	Control mechanisms used
<b>Liquidity risk</b>	Risk associated with the ability to meet payment obligations in the short and long term, also involves the capacity to settle uncertain tax liabilities. Materialisation of the risk may hinder the achievement of strategic objectives and organisational development, undermine creditworthiness, increase the cost of debt servicing and lead to a loss of reputation.	<ul style="list-style-type: none"> <li>• Financial policy, including the market risk management policy;</li> <li>• Financial projections;</li> <li>• Long-term financial model;</li> <li>• Cash pooling;</li> <li>• Cash flow projections;</li> <li>• Analysis of variances;</li> <li>• Work of dedicated Teams;</li> <li>• Co-operation with a third party adviser,</li> <li>• Monitoring of ongoing changes in the tax law and case law.</li> </ul>
<b>Pricing policy risk</b>	Risk associated with incorrect calculation of selling prices and approval by the President of the URE of tariff rates at a level which does not guarantee the viability of sales. If the risk materialises, this may result in the company losing the market share (margin, volume, revenue), customer attrition and, if no tariff is approved, inability to bill customers for actual sales.	<ul style="list-style-type: none"> <li>• Ongoing market investigation for developments in the market, legal and regulatory environment;</li> <li>• Ongoing examination of the planned financial result and other selected ratios, and ongoing analysis of the impact of the adopted price calculation principles on that result/ratios;</li> <li>• Ongoing examination of offering mechanisms (including the Coupled Model) and proper performance of commercial IT systems and databases;</li> <li>• Audits and inspections;</li> <li>• Offering monitoring system.</li> </ul>
<b>Credit risk related to collections</b>	The risk involves the counterparties' failure to fulfil the liabilities resulting from the concluded contracts (no payment, late payment) or customers' attempts at renegotiation of the predetermined conditions. Risk materialization may lead, among others, to an increase in disputed and past due receivables, cash flow disruptions and the loss of a part of revenues.	<ul style="list-style-type: none"> <li>• Increased frequency of cash flow monitoring;</li> <li>• Creating schedules/ paths of debt collection activities;</li> <li>• Cooperation with law firms.</li> </ul>

Implementing the provisions of the Energa Group's financial policy, group companies enter into various kinds of financial agreements that generate financial and market risks. The most important ones include interest rate risk, foreign exchange risk, credit risk as well as liquidity risk. The above risk categories determine the financial performance of individual companies, as well as the Energa Group as a whole.

### Interest rate risk

The Energa Group finances its operating or investing activity with debt liabilities bearing interest at a floating or fixed interest rate. Interest rates are also involved when surplus cash is invested in floating or fixed interest rate assets.

The floating interest rate risk resulting from existing debt liabilities applies to WIBOR-based rates only. With respect to liabilities denominated in euro, the Energa Group has a financial liability arising from issues of fixed-coupon eurobonds, as well as issues of hybrid eurobonds, also based on a fixed coupon.

According to the interest rate risk policy, the risk of interest rates fluctuation is mitigated by maintaining a portion of debt with a fixed interest rate. In line with these assumptions, IRS floating interest rate hedging transactions are executed.

In connection with implementation of hedge accounting, the Energa Group also identifies interest rate risk related to the concluded CCIRS and IRS hedging transactions, which however has no effect on the Group's financial result. Moreover, the level of interest rates has a direct effect on the WACC quoted by the President of the URE to calculate the return on RAB, which



is included in the Energa Operator SA tariffs. Low interest rates result in a lower return on RAB and an increase in actuarial provisions.

### **Foreign exchange risk**

In the financial area, the foreign exchange risk is associated mainly with incurring and servicing Energa Group's debt liabilities in foreign currencies under the EMTN eurobond programme, as well as issue of hybrid bonds. Additionally, some Energa Group companies have a foreign currency surplus resulting from their operating activity or investing activity. The Energa Group monitors the foreign exchange risk and manages it mainly through CCIRS hedge transactions and hedge accounting.

### **Credit risk**

Credit risk is associated with the counterparty's potential permanent or temporary insolvency with regard to financial assets such as cash and cash equivalents and available-for-sale financial assets. The risk arises due to the contractual counterparty's inability to make the payment and the maximum exposure to this risk equals the carrying amount of the instruments acquired.

Within the scope covered by the analysis, in order to minimise the credit risk, ratings of financial institutions cooperating with the Energa Group are regularly monitored.

### **Liquidity risk**

Liquidity risk involves the likelihood of becoming unable to pay current liabilities on time or losing the potential benefits of over-liquidity.

The Energa Group companies monitor the liquidity risk using a regular liquidity planning tool. The tool takes into account the payment due/maturity dates for investment liabilities and financial assets and liabilities and projected cash flows from operating activity. The Group aims to maintain a balance between continuity and flexibility of financing by using many different sources of financing, such as working capital and investment loans, hybrid bonds and eurobonds. Since the Group's debt operations are centralised within Energa, this company monitors the fulfilment of covenants on an ongoing basis and their long-term projections, enabling the determination of the Energa Group's creditworthiness to incur more debts.



Energa Wind Farm

## Shares and shareholding structure

## 8. SHARES AND SHAREHOLDING STRUCTURE

### 8.1. Energa's shareholding structure

Energa SA shares have been listed on the Warsaw Stock Exchange (WSE) since 2013. From the Company's inception, i.e. from 2006 to 29 April 2020, the State Treasury was the Company's strategic shareholder holding a 51.5% share in the Company's share capital, or 64.1% of votes at the General Meeting of the Company ("GM") as at 31 March 2020.

As at 31 December 2020 and as at the preparation date of this Report, PKN ORLEN is the strategic shareholder, holding 90.92% of the Company's shares, which translates to 93.28% of votes at the GM.

Table 34: Company's shares by series and type as at 31 December 2020

Series	Type of shares	Shares	(%)	Votes	(%)
AA	ordinary bearer shares	269,139,114	65.00	269,139,114	48.15
BB	preferred registered*	144,928,000	35.00	289,856,000	51.85
<b>TOTAL</b>		<b>414,067,114</b>	<b>100.00</b>	<b>558,995,114</b>	<b>100.00</b>

\* One preferred share entitles to two votes at the General Meeting.

Table 35: Shareholding structure of the Energa Company as at 31 December 2020 and as at the date of this Report

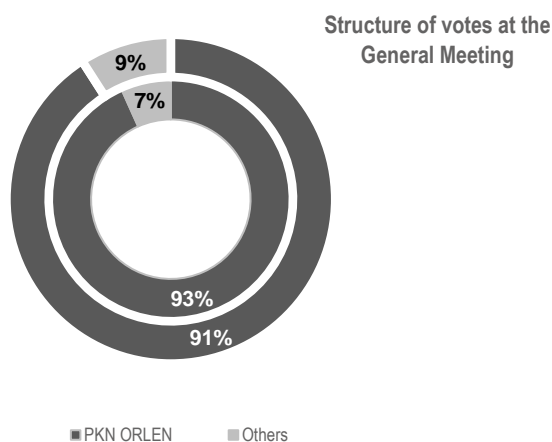
Shareholder's name	Company's shareholding structure			
	Shares	(%)	Votes	(%)
PKN ORLEN	376,488,640	90.92	521,416,640	93.28
others	37,578,474	9.08	37,578,474	6.72
<b>TOTAL</b>	<b>414,067,114</b>	<b>100.00</b>	<b>558,995,114</b>	<b>100.00</b>

\* PKN ORLEN holds 144,928,000 registered series BB shares, with preference as to voting rights at the General Meeting, where one preferred share entitles to two votes at the General Meeting.

Following settlement of the tender offers announced on 5 December 2019 and 21 September 2020 to subscribe for the sale of all shares issued by Energa, which in total give the right to exercise 100% of votes at the GM on 30 November 2020 PKN ORLEN achieved 90.92% and 93.28% share in the share capital of the Company and the general number of votes in the Company respectively (for more information about this, see chapter 2.3. *Key events in 2020 and after the balance sheet date*).

On 29 October 2020, the Extraordinary General Meeting of Energa SA ("EGM") adopted a resolution to withdraw 269,139,114 ordinary bearer shares of AA series of the Company's shares denoted with code ISIN PLENERG00022 in Krajowy Depozyt Papierów Wartościowych S.A. ("Shares") from trading on the regulated market operated by Giełda Papierów Wartościowych w Warszawie SA. At the same time, the EGM authorized and obliged the Management Board of the Company to take all the legal and factual steps necessary to withdraw the Shares from trading on the regulated market operated by the WSE. As a result, on 30 October 2020 the Company filed an application with the Polish Financial Supervision Authority for withdrawal of the Shares from trading on the regulated market operated by the WSE.

Figure 31: Shareholding and voting structure at the General Meeting of Energa as at 31 December 2020 and as at the date of this Report



The Company does not have any employee share schemes in place.

In 2020, neither the Company nor its subsidiaries purchased Energa's own shares. As at 31 December 2020, neither the Company nor its subsidiaries held any shares in Energa.

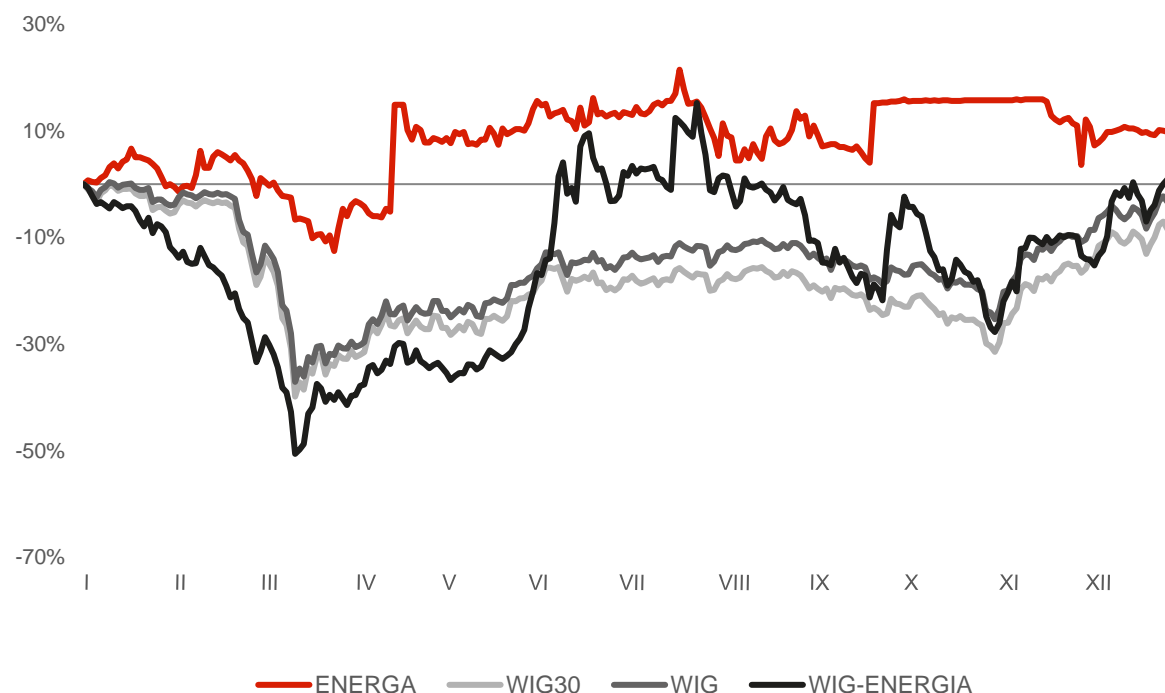
## 8.2. The Company's stock prices on the Warsaw Stock Exchange

Table 36: Data for Energa shares as at 31 December 2020

Data	Value
Issue price	PLN 17.00
Number of shares	414,067,114
Stock price at the end of the period	PLN 7.88
Capitalization at the end of the period	PLN 3.3 billion
Q4 2020 minimum at market close	PLN 7.44
Q4 2020 maximum at market close	PLN 8.32
2020 minimum at market close	PLN 5.90
2020 maximum at market close	PLN 8.86
Average trading value in 2020	PLN 2.8 million
Average trading volume in 2020	370.9 thousand
Average number of transactions in 2020	0.34 thousand

Source: Proprietary material based on data from [www.infostrefa.com](http://www.infostrefa.com)

Figure 32: Changes in Energa stock prices compared to changes in WIG, WIG20 and WIG-ENERGIA indices in 2020



Energa's stock price at the close of the stock exchange session held on 31 December 2020 amounted to PLN 7.88, which means that it grew by 11.30% in comparison with the exchange rate applicable on the last business day of the year 2019 (i.e. on 30 December). During the discussed period, WIG30 increased by approx. 13.40%, and WIG-Energia increased by 3.18%.

Following a decrease in the number of free-floating Energa shares below 10% (after announcement of results of the delisting tender offer by PKN ORLEN) WSE deleted Energa shares from all of its stock market indices effective after the 3 December 2020 session (for more information, see chapter 2.3. *Key events in 2020 and after the balance sheet date*).

### 8.3. Investor relations at Energa

The Investor Relations Office, in cooperation with the Management Board of the Company and other business units of the Group, works to ensure effective communication with equity market participants. Those activities are tailored to the information needs of particular groups of recipients. Contact with the Company's stakeholders is made, among others, during teleconferences, via email and regularly updated materials available on the website.

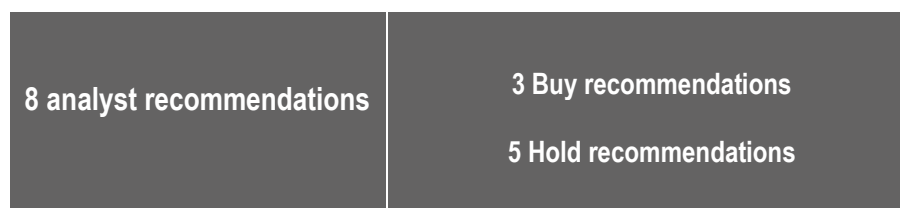
The Investor Relations Office uses a bilingual website to carry out its activities, which is updated on an ongoing basis with essential information about the Group in the form of, among others, quarterly results presentations or fact sheets. Market participants are free to familiarize themselves with the rules followed by the Company in its investor relations – the website contains the Information Policy. In addition, the investor relations website contains current and periodic reports.

In 2020, 85 current reports were published, concerning, among others, signing of agreements on the Ostrołęka C Project, changes in composition of the Supervisory Board of Energa, information about the impairment losses, estimated results of the Energa Group, resolutions of the General Meeting or results of the capacity market auction for 2025. Two video-conferences were also organized after the publication of the results for 2019 and H1 2020.

## 8.4. Recommendations for the Company's stock

In 2020, analysts from brokerage houses and investment banks made 8 recommendations concerning the stock of Energa SA.

Figure 33: Analyst recommendations awarded in 2020



A list of issued recommendations can be found on the Company's Investor Relations website at <https://ir.energa.pl/en/ir/investor-relations-web-site/Financial-results/Recommendations>.

## 8.5. Ratings

On 29 May 2020, Fitch Ratings ("Agency") downgraded long-term foreign- and local-currency Issuer Default Ratings (IDRs) for the Company from BBB to BBB- with a Stable Outlook, the rating for the bonds issued by the Company's subsidiary Energa Finance AB (publ) down to BBB-, and the rating for Energa SA's hybrid bonds down to BB. The Company's rating was removed from the Rating Watch Negative.

The agency justified the downgrade primarily by the Company's takeover by PKN ORLEN. Therefore, in Fitch's opinion, actions resulting in operational and strategic integration with PKN ORLEN will take place, which implies lowering of the Company's rating in line with the rating of PKN ORLEN (BBB-). The Agency emphasized the fact that Energa SA's standalone credit profile continued to be assessed at 'bbb', thanks to, among others, the stability of the Distribution Business Line, with low risks, a high share in the Energa Group's EBITDA, and predictability of cash flows. Fitch also welcomed the proposal to halt the Ostrołęka C project in the coal formula and to consider a switch to the gas formula.

Table 37: Valid ratings of Energa as at 31 December 2020

Series	Fitch
Long-term rating of the Company	BBB-
Rating outlook	Stable
Rating date	19 January 2012
Rating last changed on	29 May 2020
Rating last reviewed on	29 May 2020

## 8.6. Dividend

Since 2017 Energa SA has not paid dividends.





Włocławek Hydroelectric Power Station

## Other information about the Group

## 9. OTHER INFORMATION ABOUT THE GROUP

### 9.1. Information on material contracts, agreements and transactions

#### Information on material transactions with related parties made on non-arm's length terms

All transactions within the Energa Group are entered into based on arm's-length prices of the goods, products or services delivered, which result from the cost of production. For details, please see Note 33 to the Consolidated financial statements for the year ended 31 December 2020.

#### Agreements for loans and borrowings

##### Lending agreements with multilateral financial institutions

##### Loans to finance the investment programme at Energa Operator for the years 2009-2012

In 2009-2010, Energa and its subsidiary Energa Operator signed the following lending agreements in connection with the development and upgrading of its distribution network in 2009-2012:

- with the European Investment Bank ("EIB") for a PLN 1,050 m facility,
- with the European Bank for Reconstruction and Development ("EBRD") for a PLN 1,076 m facility,
- with the Nordic Investment Bank ("NIB") for a PLN 200 m facility.

The financing was fully utilised by the Company, and the following balances remain outstanding:

- to EIB – PLN 377.1 m with a final maturity date on 15 December 2025,
- to EBRD – PLN 370.4 m with a final maturity date on 18 December 2024,
- to NIB – PLN 32.4 m with a final maturity date on 15 June 2022.

##### Loans to finance the investment programme at Energa Operator for the years 2012-2015

In 2013, Energa together and Energa Operator entered into the following lending agreements to finance the investment programme of Energa Operator in 2012-2015, in connection with the development and upgrading of the distribution network:

- an agreement with EBRD for a PLN 800 m facility – as at 31 December 2020 PLN 381.1 m were utilised (of which PLN 151.1 m by Energa and PLN 230 m by Energa Operator SA). The facility's final maturity date is 18 December 2024,
- an agreement with EIB for a PLN 1,000 m facility – as at 31 December 2020, PLN 745.8 m were utilised (of which PLN 566.6 m by Energa and PLN 179.2 m by Energa Operator SA). The final maturity date of the drawn facility is 15 September 2031.

#### Nordic Investment Bank

On 23 October 2014, Energa signed a bank credit facility agreement with the Nordic Investment Bank for a PLN 67.5 m facility to finance a wind farm construction project in Myślino. As at 31 December 2020, PLN 36.1 m were utilised under the facility. The facility's final maturity date is 15 September 2026.

#### *Revolving ESG-linked credit facility*

On 17 September 2019, Energa signed a revolving ESG-linked credit facility agreement totalling PLN 2,000 m. The agreement was made with a consortium of banks, namely: Santander Bank Polska S.A. with its registered office in Warsaw, Bank Gospodarstwa Krajowego with its registered office in Warsaw, Powszechna Kasa Oszczędności Bank Polski SA with its registered office in Warsaw, Caixabank SA (Spółka Akcyjna) Oddział w Polsce with its registered office in Warsaw and MUFG Bank (Europe) N.V. with its registered office in Amsterdam.

The funding under the facility may be spent, among other things, on growth of RES capacity and further modernisation of power lines, and may also be partially allocated towards repayment of related prior indebtedness. The facility is granted on the condition that the provided funds are not spent on coal-based power generation. The facility is granted for a term of 5 years from the date

of signing of the agreement which may be extended by one-year periods twice. The credit facility's interest was set on the arm's length principle based on the WIBOR rate plus margin. The company undertook to secure an Environmental, Social, Governance (ESG) rating, the level of which may impact the margin. The credit facility is unsecured.

#### **BGK renewable loan**

On 3 July 2020 Energa and Bank Gospodarstwa Krajowego concluded a revolving facility agreement worth PLN 500 million for financing of corporate objectives of Energa SA, including financing of day-to-day operations and the CapEx programme, and refinancing of financial debt. The facility's final maturity date is 3 July 2022. The credit facility's interest was set on the arm's length principle based on the WIBOR rate plus margin. As at 31 December 2020, the loan was utilised in full.

#### **SMBC renewable loan**

On 28 July 2020 Energa and SMBC Bank EU concluded a revolving facility agreement worth EUR 120 million in the ESG-linked loan formula, based on the assessment of the borrower's involvement in the area of sustainable development and responsible business, intended for the financing of the Company's corporate goals, including financing of day-to-day operations, financing of the CapEx programme, and refinancing of financial debt, excluding capital expenditure on coal-fired energy. The facility's final maturity date is 28 July 2025. The credit facility's interest was set on the arm's length principle based on the EURIBOR rate plus margin. The company undertook to secure an Environmental, Social, Governance (ESG) rating, the level of which may impact the margin. As at 31 December 2020, the loan was not utilised.

#### **Loans granted by Energa Finance AB (publ)**

In 2020, two loans originally totalling EUR 499 m, granted to the Company by subsidiary Energa Finance AB (publ) in March 2013 and maturing on 28 February 2022 were continued. As at 31 December 2020 EUR 110 million was drawn down under these loans.

The loan granted to Energa in June 2017 by Energa Finance AB (publ) at EUR 200 million maturing on 28 February 2027 was also continued.

#### **Loans granted**

On 23 December 2019, a loan agreement was made between Energa and Enea S.A. on the one hand, and Elektrownia Ostrołęka Spółka z o.o. on the other hand, for the total sum of PLN 340 million.

Granting of the loan constituted partial performance of Energa's obligations under the Memorandum of Understanding of 30 April 2019 between Energa and Enea on the financing of the construction of the Ostrołęka C Power Plant, further detailing the declarations of financial commitment made by Energa and Enea in the Memorandum of Understanding of 28 December 2018.

As at 31 December 2020 liability of Elektrownia Ostrołęka spółka z o.o. to Energa under the loan was PLN 170 million.

On 31 December 2019, Energa entered into a long-term lending agreement with Energa Operator SA, its subsidiary, in the amount of PLN 4,900 m, intended for the refinancing of Energa Operator SA debt towards Energa on account of long-term bonds up to PLN 1,566 m and financing of the borrower's investment programme pursued in 2020-2023, up to the amount of PLN 3,334 m. As at 31 December 2020 PLN 3,082 million of the loan was utilized.

Furthermore, the Energa Group serviced its internal bond issue programmes during the reporting period. The following table presents the par values of bonds taken up by Energa SA and not redeemed, broken down by individual Energa Group issuer companies, as at 31 December 2020.

**Table 38: Par value of bonds taken up by Energa and not redeemed, by issuer, as at 31 December 2020**

No.	Company name	Par value of the bonds taken up (PLN '000)
1.	Energa Operator	1,066,000
2.	Energa OZE	647,200
3.	Energa Kogeneracja	6,270
<b>TOTAL</b>		<b>1,719,470</b>

### Insurance contracts

The Group has a common insurance policy in place, which provides for insurance coverage for the companies and their operations against risks involved in their business and assets, conforming to the highest market standards, at a fairly calculated market premium. The adopted sums insured are set at an adequate level for the risks and external factors and correspond to the profile of energy sector companies in Poland.

A joint Insurance Programme is carried out in cooperation with a brokerage company. In accordance with the conditions of the Programme, all Energa Group companies have a coinciding insurance period, and contracts are made for three years. The Programme accepts standardised coverage for insured risks, with individual contracts and extension clauses negotiated to suit the specific needs of the companies.

Insurance contracts are made with leading insurers operating in Poland. Currently, the Energa Group's main insurance partner is Towarzystwo Ubezpieczeń Wzajemnych Polski Zakład Ubezpieczeń Wzajemnych.

### Guarantees and sureties granted

**Table 39: Information on Energa's guarantee and surety business as at 31 December 2020**

No.	Date guarantee or surety granted	End date of guarantee or surety	Entity for which guarantee or surety was granted	Entity in favour of which guarantee or surety was granted	Form of surety or guarantee granted	Amount of guarantee or surety (PLN million)	Amount of liability as at 31 December 2020 covered by surety or guarantee (PLN million)
1.	2012-11-15	2033-12-31	Energa Finance AB	bondholders	surety agreement*	5,768.5	1,310.3
2.	2015-01-08	2024-12-31	Energa OZE SA	WFOŚiGW (Provincial Fund for Environmental Protection and Water Management) Gdańsk	surety - loan agreement	15.0	0.9
3.	2017-06-20	2021-02-28	Energa OZE SA	NFOŚiGW Warsaw	surety agreement	4.2	2.7
4.	2017-11-22	2021-03-31	Energa Operator SA	State Treasury	surety agreement	40.0	40.0
5.	2018-10-31	2026-01-01	ENSPIRION Sp. z o.o.	Polskie Sieci Elektroenergetyczn e SA	surety agreement	10.1	3.7
6.	2019-11-15	2027-01-01	ENSPIRION Sp. z o.o.	Polskie Sieci Elektroenergetyczn e SA	surety agreement	10.8	10.8
7.	2020-03-17	2023-03-24	Energa Ochrona Sp. z o.o.	Carfleet	surety	0.2	0.2

## Energa SA's Management Board Report on the activities of the Energa Capital Group and Energa SA in 2020

agreement						
8.	2020-04-28	2021-08-31	Energa Obrót SA	QSUN Group	surety agreement	4.7
8.	2020-12-03	2028-01-01	ENSPIRION Sp. z o.o.	Polskie Sieci Elektroenergetyczne SA	surety agreement	17.2
9.	2020-12-03	2028-01-01	ENSPIRION Sp. z o.o.	Cognor SA	surety agreement	2.0
10.			Other Energa Group companies		surety** - guarantee agreement	58.6
<b>TOTAL</b>					<b>5,931.3</b>	<b>1,404.6</b>

\*The Euro Medium Term Note (EMTN) programme for up to EUR 1,000,000,000 was established on 15 November 2012. As part of the EMTN Programme, Energa Finance AB (publ), a Swedish law subsidiary of Energa SA, can issue Eurobonds with maturities of one to ten years. Under a surety agreement of 15 November 2012, as amended on 16 February 2017, Energa undertook to unconditionally and irrevocably guarantee the Eurobond liabilities of Energa Finance AB (publ) up to EUR 1,250,000,000 until 31 December 2033 inclusive. On 19 March 2013, Energa Finance AB (publ) issued the first series of Eurobonds totalling EUR 500,000,000 which were redeemed on 19 March 2020; on 7 March 2017, it issued the second series of Eurobonds totalling EUR 300,000,000 and maturing on 7 March 2027.

\*\* Civil-law sureties granted by Energa for liabilities of the Energa Group companies arising from bank guarantees granted by Bank PKO BP SA under guarantee facilities dedicated to Energa Group companies. The facility is available until 19 September 2022. The expiry dates of guarantees provided under the facility can fall beyond the end date of the facility itself. The repayment of liabilities is secured by a civil-law surety.

The remaining guarantees granted on the instruction of Group companies include, without limitation, PLN 245.2 m granted to Energa Obrót by Pekao SA and Bank Gospodarstwa Krajowego.

### Structure of main equity deposits or major investments within the Issuer's Group in the financial year

Table 40: Main equity deposits of Energa as at 31 December 2020

No.	Bank	Instrument type	Start date	Maturity date	Amount (PLN)
1.	DNB Bank Polska SA	short-term deposit	20.12.2019	20.01.2020	100,000,000
2.	Bank Gospodarstwa Krajowego	short-term deposit	20.12.2019	20.01.2020	50,075,000
<b>TOTAL</b>					<b>150,075,000</b>

### Information on material transactions with related parties made on non-arm's length terms

All transactions within the Energa Group are entered into based on arm's-length prices of the goods, products or services delivered, which result from the cost of production. For details, please see Note 33 to the Consolidated financial statements for the year ended 31 December 2020.

### Assessment of the management of financial resources and the prospects of investment projects

During the financial year, the Energa Group had sufficient financial resources to timely cover all current and planned expenses in connection with its operating and investing activities. The cash held by the Group as well as the available credit facilities allow the Group to pursue a flexible liquidity management policy.

The execution of investment projects was based on the use of own funds combined with debt financing. The structuring of the projects implemented by the Energa Group assumes that its financial security will be maintained, which is reflected in the use of long-term debt financing sources, pursuing a dividend policy aligned with the strategy, maintaining financial covenants as agreed with debt capital providers, and maintaining the investment-grade rating. The two latter represent restrictions that determine the investment capabilities of the Energa Group, which are defined in the long-term perspective. Such a conservative approach



allows to carry out the investing policy in a way that minimises any risk of violation of financial covenants or rating downgrades, while optimising the financial structure of the Group in consideration of the current and projected financial market trends.

The Company monitored its liquidity risk using a regular liquidity planning tool, taking into account the due/maturity dates of investment liabilities, financial assets and financial liabilities, as well as the projected cash flows from operating activities, in order to maintain a balance between continuity and flexibility of financing by using many different sources of financing.

In 2020, the Energa Group continued the optimisation of liquidity management using zero-balancing cash pooling, which took over the functions associated with short-term bond issuances, and additionally maximised the Group's ability to use its surplus cash to finance the current activities of its individual companies.

## **9.2. Proceedings pending before courts, arbitration or public administration bodies**

As at 31 December 2020, the Energa Group was a party to 14,808 court proceedings. The Group was a plaintiff in 12,549 cases where the aggregate amount in dispute was approx. PLN 534 m. The Group was a defendant in 1,585 cases where the aggregate amount in dispute was approx. PLN 555 m. Information on the total litigated value does not include proceedings where the claim is non-pecuniary.

As at 31 December 2020, the total amount of claims involving the location of power installations on third-party properties without a legal title, awarded by final judgments, was approx. PLN 43.4 m in approx. 746 cases. 984 court cases with amounts in dispute totalling PLN 88.5 m were pending.

Based on the available data pertaining to the value of pending proceedings, the Company assumes that the actual amount to be paid after the above-mentioned disputes are resolved may reach PLN 74.8 m, which is subject to change if new court cases involving power installations located on third-party properties without a necessary legal title are brought against Energa Operator SA.

The above data do not also include cases in which court and enforcement-based collection is conducted for and on behalf of Energa Obrót in order for the company to recover the amounts due from its customers and bankruptcy cases.

As at 31 December 2020, the aggregate value of the cases in which court and enforcement-based collection is conducted for and on behalf of Energa Obrót in order for the company to recover the amounts due from its customers and bankruptcy cases amounts to approx. PLN 194 m, of which:

Type of receivables	Balance at the end of Q4 2020 (PLN million)
court and enforcement-based	120.3
bankruptcies	64.6
non-billed	6.4
non-billed – bankruptcies	2.7
<b>TOTAL</b>	<b>194.0</b>

Important court proceedings pending in courts in 2020 or which were continued in 2020 are presented below. The Company's previous periodic reports contain details of the legal steps taken during earlier years.

**Table 41: Proceedings pending before courts, arbitration or public administration bodies**

Parties	Object of dispute and details of the case
<b>Energa Operator SA (plaintiff); Arcus SA (defendant)</b>	<b>Claim for payment of contractual penalties under the a contract for the delivery and start-up of metering infrastructure during Stage I</b> <i>Regional Court in Gdańsk</i>



	<p><i>Litigated value: approx. PLN 23.1 million</i></p> <p>Evidence proceedings before the Court of the first instance are pending. As at the date of update of the case, two opinions prepared by court experts were received by EOP: one in the field of meteorology and one in the field of metrology. The court plans to commission a supplementary opinion in the field of metrology.</p>
<p><b>Energa Operator SA (defendant)</b> <b>Arcus SA (plaintiff);</b></p>	<p><b>Claim for declaration of annulment of the contract of delivery and commissioning of the metering infrastructure at stage II</b></p> <p><i>Litigated value: approx. PLN 78 million</i></p> <p><b>Counterclaim for payment of contractual penalties for a delay in performance of the contract of delivery and commissioning of the metering infrastructure</b></p> <p><i>Litigated value: approx. PLN 157 million</i></p> <p><i>Regional Court in Gdańsk</i></p> <p>Energa Operator SA does not admit any part of the claim. Evidence proceedings before the Court of the first instance are pending. As at the date of update of this case, the court is looking for experts capable of preparing an opinion in the field of information technology.</p>
<p><b>Energa Operator SA (defendant)</b> <b>Arcus SA (plaintiff);</b></p>	<p><b>Claim for payment of compensation for unlawful acts/unfair competition practices</b></p> <p><i>Regional Court in Gdańsk</i></p> <p><i>Litigated value: approx. PLN 174 million</i></p> <p>Energa Operator SA disputes legitimacy of that statement of claim and in response to the statement of claim dated 30 April 2018 applied for the claim to be dismissed. Pursuant to Article 177 § 1 Clause 1 of the Code of Civil Procedure, the court suspended the related proceedings. Energa Operator SA appealed against this decision in a complaint, which was dismissed. The proceedings have been stayed.</p>
<p><b>Energa Operator SA (defendant)</b> <b>Arcus SA (plaintiff);</b></p>	<p><b>Claim for payment for additional works under the contract of delivery and commissioning of the metering infrastructure</b></p> <p><i>Regional Court in Gdańsk</i></p> <p><i>Litigated value: approx. PLN 4.7 million</i></p> <p>Energa Operator SA disputes legitimacy of that statement of claim and has moved for it to be dismissed. Energa Operator SA filed an appeal against the decision to refuse dismissal of the statement of claim.</p>
<p><b>Energa Operator SA (plaintiff);</b> <b>PKN ORLEN SA (defendant)</b></p>	<p><b>Claim for payment on account of the system fee for services provided</b></p> <p><i>Regional Court in Warsaw</i></p> <p><i>Litigated value: approx. PLN 30 million</i></p> <p>On 31 March 2021, a court settlement was concluded before the Court of Appeal</p>
<p><b>Energa Operator SA (party);</b> <b>PRESIDENT OF THE ENERGY REGULATORY OFFICE (authority)</b></p>	<p><b>Fine imposed by the authority</b></p> <p><i>Regional Court in Warsaw</i></p> <p><i>Litigated value: approx. PLN 13 million</i></p> <p>The Company received the decision of 21 December 2016 in which the President of the URE imposed a fine of PLN 11 m on Energa Operator SA for misleading the President of the URE. On 24 May 2019, the Regional Court in Warsaw issued a judgment reducing the fine to PLN 5.5 million.</p> <p>Both parties filed appeals in this case.</p>
<p><b>Energa Operator SA (party);</b> <b>PRESIDENT OF THE ENERGY REGULATORY OFFICE (authority)</b></p>	<p><b>Fine imposed by the authority</b></p> <p><i>Regional Court in Warsaw</i></p> <p><i>Litigated value: approx. PLN 11 million</i></p> <p>Energa Operator SA received the decision of 6 November 2017 imposing fines totalling PLN 13,600,000 for breaching the Traffic and Distribution Grid Operation Manual through: (1) communication with trading companies using other codes than provided for in the Traffic and Distribution Grid Operation Manual; (2) failure to meet the deadlines to provide measurement data to trading companies; (3) failure to meet the deadlines to examine complaints from trading companies; (4) failure to meet the deadlines to verify supplier switching reports; (5) failure to meet the deadlines for the final settlement of electricity sales agreements; and (6) failure to restart power supplies to one of the customers.</p> <p>With its judgment of 8 December 2020 the Regional Court in Warsaw dismissed the appeal. The Company appeal.</p>
<p><b>Energa Kogeneracja Sp. z o.o. (plaintiff), Mostostal Warszawa SA (defendant)</b></p>	<p><b>Claim for payment on account of a contract price reduction</b></p> <p><i>Regional Court in Gdańsk, file No. IX GC 494/17</i></p> <p><i>Litigated value (after expansion of the claim): approx. PLN 114.4 million, with PLN 7.8 million under the counterclaim</i></p>

Energa Kogeneracja Sp. z o.o. moved to the court to award the amount of approx. PLN 114.4 million from Mostostal Warsaw S.A., which includes: approx. PLN 22.6 million in contractual penalties, approx. PLN 90.3 million in reduced remuneration and approx. PLN 1.5 million in capitalised interest. In its statement of defence of 15 December 2017, Mostostal Warszawa SA moved to the court to dismiss the claims in their entirety and filed a counterclaim to award the amount of approx. PLN 7.8 million from Energa Kogeneracja Sp. z o.o. consisting of: approx. PLN 7.4 million in repayment of bank guarantee unduly withdrawn and approx. PLN 0.4 million in capitalised interest.

There was only one hearing in the case regarding opposition by Mostostal Warszawa S.A. against third-party respondent entering the case, namely the Minister of Energy (whose tasks, after reorganisation, were taken over by the Minister of Climate). Objection by Mostostal Warszawa S.A. to third-party respondent entering the case was dismissed, so the third-party respondent is still present in the case.

The court admitted evidence from the opinion of a scientific and research institute for the purpose of securing evidence. So far, the opinion has not been drawn up because none of the institutes which the court asked about the possibility of drawing up an opinion has confirmed such a possibility (both in Poland and abroad).

Currently, the parties are waiting for a response from institutes in Stockholm, Hamburg and Vienna.

Negotiations between the parties aimed at reaching the settlement have been unsuccessful.

**Mostostal Warszawa SA  
(plaintiff)  
Energa Kogeneracja Sp. z o.o.  
(defendant)**

**Claim for payment of remuneration**

*Regional Court in Gdańsk, file No. IX Gc 190/18*

*Litigated value: approx. PLN 26.3 million*

Mostostal Warszawa SA filed for awarding the amount of approx. PLN 26.3 m from Energa Kogeneracja Sp. z o.o. consisting of: approx. PLN 20 m in remuneration (in part) and approx. PLN 6.3 m in capitalised interest. Initially a writ of payment in writ-of-payment proceedings was issued, but following an objection by Energa Kogeneracja Sp. z o.o. the case was referred to regular proceedings. There were 7 hearings in the case and all witnesses were heard.

The court allowed evidence from an opinion prepared by an expert in construction industry. So far, no opinion has been drawn up.

Negotiations between the parties aimed at reaching a settlement have not yet led to it.

**shareholders of the Company  
(plaintiffs)  
Energa SA (defendant)**

**appeal against Resolution No 3 of the Extraordinary General Meeting of the Company of 29 October 2020**

*Regional Court in Gdańsk, file No. IX GC 1158/20*

*The claim is financial and non-pecuniary.*

On 9 December 2020, the Management Board of Energa SA learned of the issuance on 7 December 2020 by the Regional Court in Gdańsk, 9<sup>th</sup> Commercial Division, of a decision on granting the Company's shareholders injunctive relief as security for their claim for revoking Resolution No. 3 of the Extraordinary General Meeting of the Company of 29 October 2020 on the withdrawal from trading on the regulated market operated by Giełda Papierów Wartościowych w Warszawie S.A. of 269,139,114 series AA ordinary bearer shares in the Company and marked in Krajowy Depozyt Papierów Wartościowych S.A. with ISIN PLENERG00022 code (the "Resolution"), by suspending its performance for the duration of the proceedings. The issuance of the decision results in suspending the enforceability of the Resolution.

The application for injunctive relief in the above mentioned case was filed together with a statement of claim for repealing the Resolution. Energa SA filed a complaint against the injunctive relief and a statement of defence within the time limit and in the manner prescribed by the applicable legal regulations (on 21 January 2021 and 7 January 2021 respectively). The Chairman of the Polish Financial Supervision Authority joined the case.

**shareholders of the Company  
(plaintiffs)  
Energa SA (defendant)**

**appeal against Resolution No 3 of the Extraordinary General Meeting of the Company of 29 October 2020**

*Regional Court in Gdańsk, file No. IX GC 1164/20*

*The claim is financial and non-pecuniary.*

On 16 December 2020, the Management Board of Energa SA learned of the issuance on 10 December 2020 by the Regional Court in Gdańsk, 9<sup>th</sup> Commercial Division, of a decision on granting the Company's shareholders injunctive relief as security for their claim for revoking Resolution No. 3 of the Extraordinary General Meeting of the Company of 29 October 2020 on the withdrawal from trading on the regulated market operated by Giełda Papierów Wartościowych w Warszawie S.A. of 269,139,114 series AA ordinary bearer shares in the Company and marked in Krajowy Depozyt Papierów Wartościowych S.A. with ISIN PLENERG00022 code (the "Resolution"), by suspending its performance for the duration of the proceedings. The issuance of the decision results in suspending the enforceability of the Resolution.

The application for injunctive relief in the above mentioned case was filed together with a statement of claim for repealing or annulling the Resolution. Energa SA filed a complaint against the injunctive relief and a statement of defence within the time limit and in the manner prescribed by the applicable legal regulations (on 12 January 2021 and 25 February 2021, respectively).

**Energa SA's Management Board Report on the activities  
of the Energa Capital Group and Energa SA in 2020**

<b>Energa SA (applicant)</b>	<p><i>Komisja Nadzoru Finansowego (Polish Financial Supervision Authority)</i></p> <p>On 30 October 2020 the Company applied to the Polish Financial Supervision Authority for withdrawal of Company's shares from trading on the regulated market operated by Giełda Papierów Wartościowych w Warszawie S.A. (Warsaw Stock Exchange).</p> <p>On 19 January 2021 the Company learned that on 15 January 2021 the Polish Financial Supervision Authority decided to stay the procedure.</p>
<b>Boryszewo Wind Invest Sp. z o.o. (plaintiff), Energa Obrót SA (defendant)</b>	<p><b>Claim for payment of damages for the failure by Energa Obrót SA to perform part of the agreement to purchase property rights in certificates of origin for renewable electricity.</b></p> <p><i>Regional Court in Gdańsk, file No. IX GC 701/17</i></p> <p>Litigated value: approx. PLN 31,8 million (amount appealed: approx. PLN 17,8 million)</p> <p>On 25 August 2017, Boryszewo Wind Invest filed a statement of claim against Energa Obrót SA for payment of approx. PLN 31.9 m plus interest as damages for a failure to perform part of the Framework Agreement for the Sale of Property Rights under Certificates of Origin No. W/HH/210/2010/1, which consisted in making a representation about partial termination of the agreement and refusal to acquire property rights in the Certificates of Origin. The amount claimed comprises the "losses" incurred by the plaintiff due to the necessity to sell the property rights at the TGE exchange plus statutory interest (approx. PLN 25.7 m) and incidental costs relating to debt service under a credit facility agreement (approx. PLN 6.3 m).</p> <p>The case was concluded in the first instance with a judgment awarding approx. PLN 17.8 m plus statutory interest accruing from 26 July 2017 in favour of Boryszewo Wind Invest and dismissing the remaining part of the claim. Energa Obrót SA filed an appeal. Judgment of the Court of second instance announced on 28 October 2019, appeal by Energa Obrót SA was dismissed. On 22 July 2020, Energa Obrót SA filed a cassation appeal, and on 7 September 2020 Boryszewo Wind Invest filed a response to the cassation appeal. By the decision of December 16, 2020, the Supreme Court accepted the cassation appeal for examination.</p>
<p><b>Action for declaration of the non-existence of a legal relationship purportedly established as a result of Energa Obrót SA entering into an agreement for the sale of property rights under certificates of origin ("CPA")</b></p>	
<b>Energa Obrót SA (plaintiff) MEGAWATT BALTICA SA (defendant 1), Powszechna Kasa Oszczędności Bank Polski SA (defendant 2)</b>	<p><i>Court of Arbitration at the Polish Chamber of Commerce in Warsaw, file No. SA 128/17</i></p> <p><i>Second instance file No: I Aga 35/19</i></p> <p><i>Litigated value: approx. PLN 23.3 million</i></p> <p>On 11 September 2017, Energa Obrót SA filed a statement of claim. The parties filed a response to the counterclaim. On 29 January 2018, a court session with Megawatt Baltica SA's participation was held with respect to the summons for a settlement attempt. No settlement was signed.</p> <p>An updated counterclaim was filed by Megawatt Baltica SA on 1 September 2018. The amount of the claim is approx. PLN 17 m including statutory penalty interest.</p> <p>On 27 December 2018, the final judgment was issued whereby contractual penalties were awarded from Energa Obrót SA in favour of Megawatt Baltica SA. The amount of the contractual penalties awarded was reduced by 10% (i.e. approx. PLN 15.3 m).</p> <p>On 26 September 2019, hearings were held regarding Energa Obrót SA's complaints for reversing the partial and final judgment.</p> <p>The judgment dismissing the appeal filed by Energa Obrót SA against the final judgment was passed by the court on 10 October 2019. The court awarded the costs of proceedings amounting to PLN 2.4 thousand from Energa Obrót SA to Megawatt Baltica SA. On 11 October 2019, Energa Obrót SA filed a request for the statements of grounds for the judgments. The company decided not to file the cassation appeal in the case of the appeal to reverse the partial judgment. On the other hand, the cassation appeal relating to the appeal to reverse the final judgment was filed on 17 February 2020. On 24 March 2020, the opponent filed a response to the cassation appeal. By a decision of 17 July 2020, the Supreme Court accepted the cassation appeal for examination.</p>

**Energa SA's Management Board Report on the activities  
of the Energa Capital Group and Energa SA in 2020**

<b>Energa Obrót SA (plaintiff) C&amp;C WIND sp. z o.o. (defendant 1), Bank Ochrony Środowiska SA (defendant 2)</b>	<p><i>Court of Arbitration at the Polish Chamber of Commerce in Warsaw, file No. SA 127/17</i></p> <p><i>Second instance file No.: VII Aga 1994/18; VII AGa 188/19</i></p> <p><i>Litigated value: approx. PLN 2.3 million</i></p> <p>On 11 September 2017, Energa Obrót SA filed a statement of claim. The parties filed a response to the counterclaim. On 29 December 2017, Energa Obrót SA withdrew the statement of claim against BOŚ. In its decision of 16 January 2018, the Court of Arbitration at the Polish Chamber of Commerce in Warsaw discontinued the proceedings against the defendant BOŚ SA as the statement of claim filed against that entity had been withdrawn. Arbitration procedures were concluded by final judgments of the arbitration court, against which Energa Obrót SA sought extraordinary remedies – appeals to reverse the judgments were filed with the Court of Appeal in Warsaw. The complaints were legally dismissed, and cassation appeals are available against the judgments in this regard. The parties attempted to negotiate a settlement but they did not reach an agreement. Energa Obrót SA applied for delivery of court judgments with explanatory memorandum of 22 October 2020 and 20 November 2020. On January 18, 2021, the judgment was delivered dismissing the complaint to set aside the partial award of the Court of Arbitration. The cassation appeal has not been filed. On 24 March 2021, a judgment was delivered dismissing the complaint to set aside the final judgment of the Court of Arbitration.</p>
<b>Energa Obrót SA (plaintiff) BORYSZEWO WIND INVEST Sp. z o.o. (defendant 1), mBank SA (defendant 2)</b>	<p><i>Regional Court in Warsaw, file No. XVI GC 799/17</i></p> <p><i>Second instance file No VII AGa 8/19</i></p> <p><i>Litigated value: approx. PLN 10.8 million</i></p> <p>On 11 September 2017, Energa Obrót SA filed a statement of claim. The parties filed a response to the counterclaim and exchanged procedural writs.</p> <p>In September 2018, the Court closed the court proceedings and issued a judgment dismissing the statement of claim, and Energa Obrót SA filed an appeal on 2 November 2018.</p> <p>On 21 December 2018, Boryszewo Wind Invest filed a response to the appeal and mBank SA did so on 28 December 2018. The date of the appeal hearing was scheduled for 6 November 2020, which was later cancelled.</p> <p>An appeal hearing was held on February 10. On March 10, 2021, the Court of Appeal in Warsaw dismissed the appeal of Energi Obrót SA and awarded Boryszewo Wind Invest and mBank approx. PLN 18.8 thousand for reimbursement of court fees. Energa Obrót SA will submit an application for delivery of the judgment with justification.</p>
<b>Energa Obrót SA (plaintiff) JEŻYCZKI WIND INVEST sp. z o.o. (defendant 1), mBank SA (defendant 2)</b>	<p><i>Regional Court in Warsaw, file No. XVI GC 805/17</i></p> <p><i>Second instance file No VII AGa 1998/18</i></p> <p><i>Litigated value: approx. PLN 15.3 million</i></p> <p>On 11 September 2017, Energa Obrót SA filed a statement of claim. The parties submitted a response to the counterclaim and exchanged procedural writs. Thereafter, a hearing was held, during which, on 6 June 2018 the court issued a judgment dismissing the statement of claim. On 13 July 2018 Energa Obrót SA filed an appeal, and then on 17 August 2018 MBANK and on 31 August 2018 Jeżyczki Wind Invest submitted a response to the appeal. The court of second instance passed a judgment dismissing the appeal of Energa Obrót SA. The Company applied for a copy of the judgment with reasoning. On 29 March 2020, Energa Obrót SA filed a cassation appeal.</p>
<b>Energa Obrót SA (plaintiff) WIND INVEST sp. z o.o. (defendant 1), mBank SA (defendant 2)</b>	<p><i>Regional Court in Warsaw, file No. XVI GC 798/17</i></p> <p><i>Second instance file No VII AGa 1004/19</i></p> <p><i>Litigated value: approx. PLN 15.2 million</i></p> <p>On 11 September 2017, Energa Obrót SA filed a statement of claim. The judgment was delivered on 19 September 2019. The court dismissed the statement of claim filed by Energa Obrót SA. On 27 November 2019, Energa Obrót SA filed an appeal. An appeal hearing was held on 19 November 2020 – the appeal by Energa Obrót SA was dismissed. On 24 November 2020, Energa Obrót SA filed a request for delivery of the judgment with the explanatory memorandum. On 22 March 2020, Energa Obrót SA filed a cassation appeal.</p>
<b>Energa Obrót SA (plaintiff) STARY JAROSŁAW WIND INVEST sp. z o.o. (defendant 1), mBank SA (defendant 2)</b>	<p><i>Regional Court in Warsaw, file No. XVI GC 802/17</i></p> <p><i>Second instance file No.: VII AGa 61/20</i></p> <p><i>Litigated value: approx. PLN 13.8 million</i></p> <p>On 11 September 2017, Energa Obrót SA filed a statement of claim. On 17 November 2017, the defendants filed statements of defence, the parties exchanged procedural writs and the witnesses were heard.</p> <p>With its judgment of 24 September 2019, the court dismissed the action for declaration. On 17 December 2019, Energa Obrót SA filed an appeal against the judgment. On 19 March 2020, Stary Jarosław Wind Invest filed a response to the appeal. On 23 March 2020, mBank filed a response to the appeal.</p>

**Energa SA's Management Board Report on the activities  
of the Energa Capital Group and Energa SA in 2020**

	<p>An appellate hearing was held on 8 October 2020, during which the parties upheld their positions. The court ended the hearing and postponed the delivery of the judgment until 26 October 2020. This date was cancelled thereafter. The new date was set for 15 April 2021.</p>
<p><b>Energa Obrót SA (plaintiff) KRUPY WIND INVEST sp. z o.o. (defendant 1), mBank SA (defendant 2)</b></p>	<p><i>Regional Court in Warsaw, file No. XVI GC 803/17</i>  <i>Second instance file No.: VII AGa 572/19</i>  <i>Litigated value: approx. PLN 5.6 million</i></p> <p>On 11 September 2017, Energa Obrót SA filed a statement of claim. The case is now pending before a court of second instance. The case was concluded by the court of first instance with a judgment dismissing the Company's action. Energa Obrót SA appealed on 2 July 2019. The appellate hearing scheduled for 17 April 2020 was rescheduled due to the state of epidemic to 27 August 2020. At the hearing, the court closed the court proceedings. On 15 September 2020, the Court dismissed the appeal of Energa-Obrót SA. The judgment with the explanatory memorandum was delivered to Energa Obrót SA on 30 October 2020. On 30 December 2020, Energa Obrót SA filed a cassation appeal.</p>
<p><b>Energa Obrót SA (plaintiff/counter-defendant) EW CZYŻEWO sp. z o.o. (defendant 1/counter-plaintiff), BANK BGŻ BNP PARIBAS SA (defendant 2)</b></p>	<p><i>Regional Court in Gdańsk, file No. IX GC 736/17</i>  <i>Second instance file No I AGa 56/19</i>  <i>Litigated value: approx. PLN 3.9 million</i></p> <p>The case was concluded by the court of first instance. The Court dismissed the action for declaration with its judgment and awarded contractual penalties. Energa Obrót SA filed an appeal. Appellate hearings were held on 23 July and 28 October 2019. The judgment was delivered on 28 November 2019. A cassation appeal was filed against the judgment. BGŻ BNP's response to the cassation appeal was served on 8 July 2020; on 10 July 2020 EW Czyżewo's response to the cassation appeal was served.</p>
<p><b>Energa Obrót SA (plaintiff), ELEKTROWNIA WIATROWA EOL sp. z o.o. (defendant 1), BANK ZACHODNI WBK SA (defendant 2)</b></p>	<p><i>Regional Court in Warsaw, file No. XXVI GC 712/17</i>  <i>Litigated value: approx. PLN 3 million</i></p> <p>On 11 September 2017, Energa Obrót SA filed a statement of claim. The case was concluded in the first instance by dismissal of the action (21 February 2020). Energa Obrót SA appealed on 7 July 2020. On 24 September 2020 EW EOL and Santander (formerly Bank Zachodni WBK) filed a response to the appeal. The date of the appellate hearing has not yet been scheduled.</p>
<p><b>Energa Obrót SA (plaintiff), WIELKOPOLSKIE ELEKTROWNIE WIATROWE sp. z o.o. (defendant 1), BANK BGŻ BNP PARIBAS SA (defendant 2)</b></p>	<p><i>Regional Court in Gdańsk, file No. IX GC 735/17</i>  <i>Second instance file No I AGa 74/19</i>  <i>Litigated value: approx. PLN 3 million</i></p> <p>On 11 September 2017, Energa Obrót SA filed a statement of claim.</p> <p>The case was closed by the court of first instance. The parties attempted to negotiate a settlement but no settlement was signed. Energa Obrót SA filed a cassation appeal on 5 August 2020. In September 2020, Wielkopolskie Elektrownie Wiatrowe and BNP Paribas filed a response to the cassation appeal.</p>
<p><b>Energa Obrót SA (plaintiff) EW KOŹMIN sp. z o.o. (defendant 1), BANK BGŻ BNP PARIBAS SA (defendant 2)</b></p>	<p><i>Regional Court in Gdańsk, file No. IX GC 738/17</i>  <i>Second instance file No I AGa 21/19</i>  <i>Litigated value: approx. PLN 2.8 million</i></p> <p>On 11 September 2017, Energa Obrót SA filed a statement of claim.</p> <p>The case was concluded by the court of first instance. The defendant wind farm filed a counterclaim against the company for payment of contractual penalties. On 30 August 2018, the Court dismissed the action for declaration with its judgment and awarded contractual penalties. Energa Obrót SA filed an appeal. On 24 June 2020, the court of second instance delivered a judgment dismissing the appeal with respect to the declaration of invalidity of CPA and granting the appeal with respect to the request to reduce the contractual penalties. The judgment with reasoning was served on 10 August 2020. On 12 October 2020, Energa Obrót SA filed a cassation appeal. On 9 November 2020 EW Koźmin sp. z o.o., and then on 10 November 2020 Bank BGŻ BNP Paribas S.A. filed a response to the cassation appeal.</p>
<p><b>Wielkopolskie Elektrownie Wiatrowe sp. z o.o. (plaintiff), Energa Obrót SA (defendant)</b></p>	<p><i>Regional Court in Gdańsk, file No. IX GC 719/19</i>  <i>Litigated value: approx. PLN 6.1 million</i></p> <p>On 14 August 2019, Wielkopolskie Elektrownie Wiatrowe (WEW) filed a statement of claim for payment by Energa Obrót SA of contractual penalties on account of failure to perform the Agreement for the Sale of Property Rights under Certificates of Origin (CPA). On 4 March 2021, the court of first instance issued a judgment upholding part of the claim, i.e. ordering EOB to pay WEW the amount of approx. PLN 2.5 million with statutory interest and trial costs (approx. PLN 35.4 thousand). In the remaining scope, i.e. for more than half of the claimed claim, the claim was</p>



dismissed. In the justification, the court indicated that the claim for payment of contractual penalties for non-performance of CPA is justified, however, the penalties should be significantly reduced, up to the amount of actually suffered damage. The judgment is not final. On 5 March 2021, an application was submitted for a written justification of the judgment.

**Elektrownia Wiatrowa Zonda sp. z o.o (plaintiff),  
Energa Obrót SA (defendant)**

*Regional Court in Gdańsk, file No. IX GC 735/19*

*Litigated value: approx. PLN 2.1 million*

The case is now pending in the first instance. Energa Obrót SA filed a statement of defence. A preparatory hearing was held on 31 January 2020, hearings were held on 13 and 14 July 2020. On 17 August 2020, the court delivered a judgment granting claim of Zonda Sp. z o.o. On 18 August 2020 Energa Obrót SA filed a motion for delivery of the judgment with the explanatory memorandum, and appealed on 29 October 2020. The response to the appeal was received on 4 January 2021. The hearing was scheduled for 28 April 2021.

**Elektrownia Wiatrowa EOL sp. z o.o. (plaintiff), Energa Obrót SA (defendant)**

*Regional Court in Gdańsk, file No. IX GC 740/19*

*Litigated value: approx. PLN 6.8 million*

On 20 August 2019, Elektrownia Wiatrowa EOL filed a statement of claim for payment by Energa Obrót SA of contractual penalties on account of Energa Obrót SA's failure to perform the Agreement for the Sale of Property Rights under Certificates of Origin (CPA). The case is now pending in the first instance. Energa Obrót SA filed a statement of defence. The proceedings are now stayed.

### 9.3. HR and payroll situation

#### 9.3.1. Energa Group

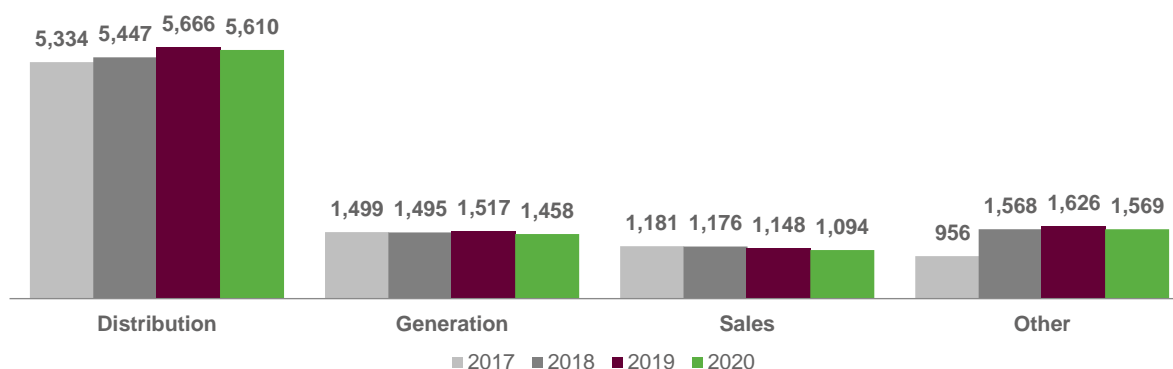
##### Employment

At the end of 2020, the Energa Group employed 9,731 people under employment contracts, which means a decrease in employment by 226 persons, i.e. 2.3% compared to the end of 2019.

The turnover of employees in the Energa Group in 2020 shows the impact of the epidemiological situation in the country. There was a visible halt to many plans and processes focused on development and employment growth. For objective reasons of safety, the possibility of recruiting employees and conducting preliminary examinations was limited. Slowed down and even suspended recruitment processes postponed the planned projects to the next year. The epidemiological situation also forced a different organization of work, where possible, remote work, in a hybrid mode. Regardless of the organizational situation and the epidemic situation in the country, employment contracts were terminated due to retirement. Thus, the employment level in the Energa Group decreased in comparison with the previous year.

When analysing data on employment, the change in definition of an employed person should be taken into account, the definition was adjusted to the ORLEN Group's standards.

**Figure 34: Energa Group's headcount as at 31 December 2017, 2018, 2019 and 2020\***



\* data for 2017, 2018 and 2019 refer to employment contracts, to the exclusion of unpaid leaves, parental leaves and rehabilitation benefits; data for 2020 are presented without any exclusions (active and inactive combined); Year 2017 was converted according to the current structure of the Energa Group.

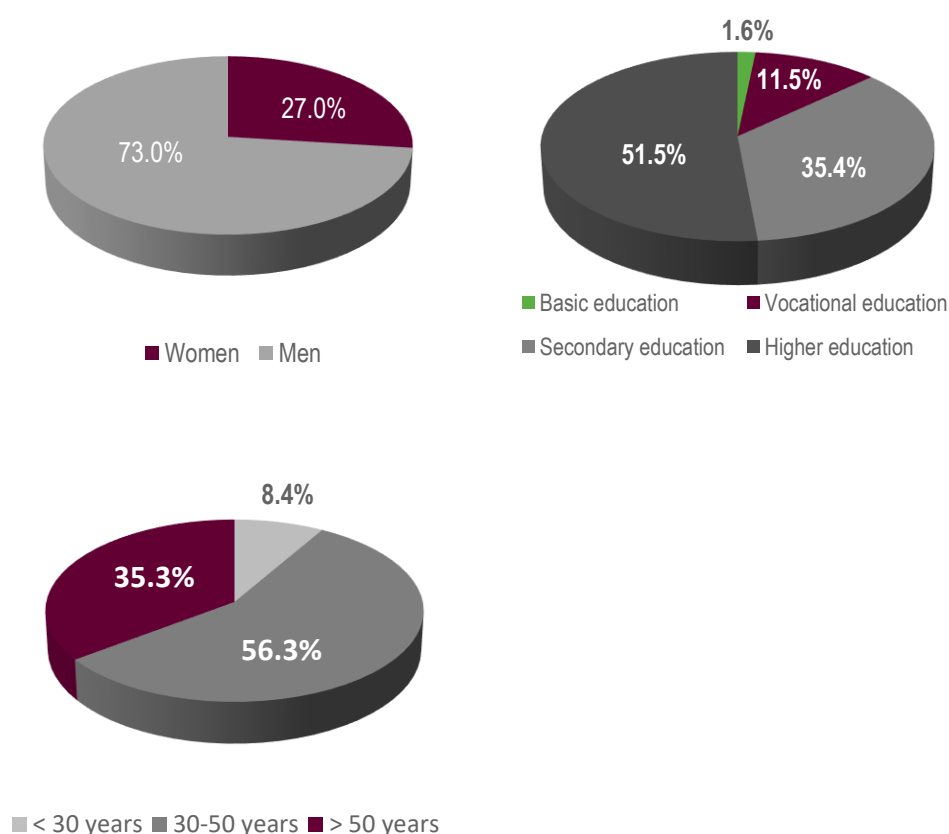


The Energa Group has a unique structure of employment where 73% employees are men and women account for 27%. This is due to the specific nature of the industry where the majority of employees are engineering and technical staff with many years of experience in the power engineering sector.

More than half of the employees are highly qualified specialists who are university graduates, while 35% are technicians with secondary education, who are highly valued on the labour market.

Detailed employment structure figures by gender, age and education have been presented on the charts below.

**Figure 35: Structure of employment in the Energa Group in 2020 by sex, education and age**



## Compensation plans

The compensation plans at the Energa Group are decentralised and differentiated. They are governed by the Company Collective Bargaining Agreements, Compensation Policies, the Labour Code and collective agreements with trade union organisations as well as the provisions of the Multi-Employer Collective Bargaining Agreement for Power Industry Employees.

## Changes in the remuneration system in 2020

On 21 September 2020 employer Energa-Operator SA Branch in Plock submitted a termination notice to trade unions regarding the Company Collective Bargaining Agreement ("Agreement"). Together with the declaration of termination of the Agreement, the employer called on the trade unions to start negotiations on a new collective bargaining agreement and for this purpose submitted its proposal based on solutions applied in the Orlen Group.

On 21 September 2020 employer Energa Logistyka sp. z o.o. in Plock submitted a notice of partial termination to trade unions regarding the Company Collective Bargaining Agreement ("Agreement"). The termination was made within the scope of the remuneration system in force. Only the current ranges of basic salaries assigned to individual pay grades remain in force. Together with the declaration of partial termination of the Agreement, the employer called on the trade unions to start negotiations

on the additional protocol to the Agreement. For this purpose, the employer submitted its proposal for an additional protocol comprehensively governing the new system of remuneration based on solutions applied in the ORLEN Group.

In September 2020, 6 last employers of the Energa Group (Energa-Operator SA Branch in Gdańsk, Toruń, Olsztyn, Koszalin, Płock and Kalisz), which had the Collective Bargaining Agreement for employer of the energy sector of 13 May 1993 as the source of labour law, submitted a notice of withdrawal from application of the Agreement as at 1 January 2021. As a result, from 1 January 2021 the Agreement will not be valid as the source of labour law at such employers.

## **Material information relevant to the HR and payroll situation**

### **Principles of setting and monitoring the objectives**

The strategic objectives of the lead entities of Business Lines and heads of Energa SA departments have been set in a consultation process, using a top-down cascading approach. The objectives for executive staff covered by the system are underpinned by the strategic objectives of the Group. The objectives for lead entities and heads of Energa departments have been designed on the basis of the Energa Group's Strategy, long-term financial plans and budget information. Achievement of the objectives constitutes, among other things, the basis for executive incentives within the Energa Group.

### **Standardisation of HR processes**

In 2020, integration with PKN ORLEN played an important role for the Energa Group, as such integration is the ability for the Energa Group to participate in a multi-energy group. Many activities in the personnel area are aimed at creating equal opportunities for employees in the entire ORLEN Group, ensuring fair and safe working conditions.

The purpose of the integration of the personnel area is the implementation and use of coherent HR solutions aimed at achieving synergy effects by increasing the effectiveness of human resource management. The Co-operation Agreement in the Field of HR of 17 December 2020 and the Policy of Managing the Potential of the ORLEN Group Employees defined priorities and key tasks related to HR policy, based on best market practices.

### **Employee benefits**

In 2020, the system of additional employee benefits at the Energa Group included, without limitation:

1. The "employee tariff" for electricity offered once an employee reaches 1 year of service in the power industry,
2. The Company Social Benefits Fund permitting contributions equal to twice the annual basic contribution set out in the Act on the Company Social Benefits Fund (CSFB),
3. Special vouchers given to employees for Easter, the Power Engineers' Day and Christmas,
4. Employee Pension Plans within the Group companies funded by employers at the rate of 7% of employee remuneration,
5. Employee Capital Plans within the Group companies funded by employers at the rate of 1.5% of employee remuneration,
6. The Additional Medical Services Plan.

Training provided by all employers within the Energa Group aims to maintain the qualifications of staff members at a consistently high level, improve performance, build knowledge, increase motivation and commitment, and develop the employees' soft skills.

In 2020, due to the coronavirus pandemic, many training courses based on physical attendance, including conferences and seminars, did not take place. For this reason, the interest in on-line training increased significantly. In 2020, employees had access to a wide range of training courses in connection with the expansion of on-line course offers, including from reputable foreign universities. In 2020, the certification training courses were also moved online.

The employees exercise additional powers derived from the Agreement securing employee, social and trade union rights of 18 September 2017.

Although the Group companies withdrew from the agreement on 31 December 2014, some additional pay components remain in place as acquired rights within the Energa Group companies covered by the Multi-Employer Collective Bargaining Agreement for Power Industry Employees of 13 May 1993, including but not limited to:

1. An annual bonus, equal to 8.5% of the annual salary fund from the previous year, paid in proportion to years in service,
2. A supplement to the base remuneration, depending on years of service,
3. Money equivalent of free coal,
4. The "employee tariff" for electricity offered once an employee reaches 1 year of service in the power industry,
5. Hazard pay,
6. Length of service bonus.

### **Changes in wage conditions**

Under the Agreement on the determination of the Energa Group employees' salary increase in 2020 of 5 November 2019, the Group's employees received base pay raises starting from 1 January 2020.

### **Collective dismissals**

No collective dismissals occurred within the Group companies in 2020.

### **Unionization**

At the end of 2020, there were 33 trade union organisations in the Energa Group companies. As at 31 December 2020 unionization at Energa Group reached 60.5%. approx. 5,900 employees were members of trade unions.

### **Collective disputes**

Two collective disputes occurred within the Energa Group in 2020:

1. A collective dispute with Energa Operator SA Oddział w Płocku Sp. z o.o. initiated by manifests of trade union organisations of 30 September 2020,
2. A collective dispute with Energa Logistyka Sp. z o.o. initiated by manifests of trade union organisations dated 24 and 30 September 2020.

## **9.3.2. Energa**

### **Employment**

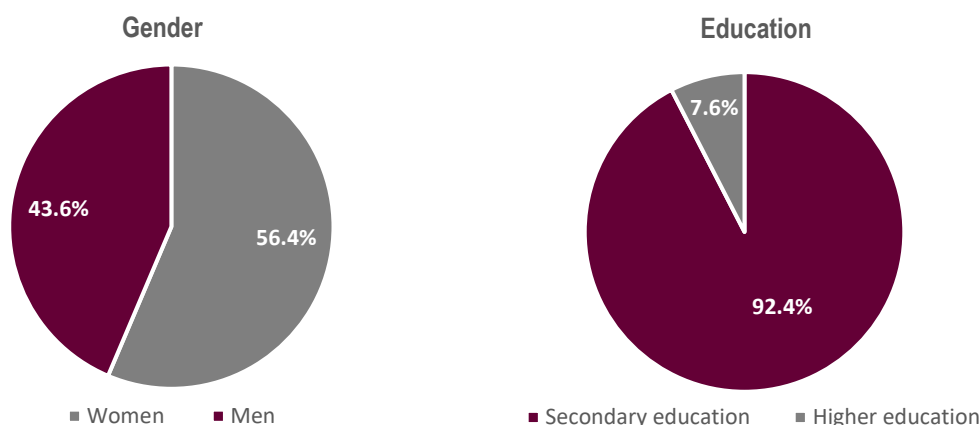
**Table 42: Energa's headcount as at 31 December 2017, 2018, 2019 and 2020\***

Employment as at 31 Dec 2017*	Employment as at 31 Dec 2018*	Employment as at 31 Dec 2019*	Employment as at 31 Dec 2020*
headcount	headcount	headcount	headcount
150	163	187	172

\* data for 2017, 2018 and 2019 refer to employment contracts, to the exclusion of unpaid leaves, parental leaves and rehabilitation benefits; data for 2020 are presented without any exclusions (active and inactive combined)

The reason for the decline in employment in Energa SA in 2020 was the optimization process that was started as part of improving the effectiveness of the Company's operations.

Figure 36: Employment structure at Energa SA as at 31 December 2020



### Compensation plans

The Company compensation system is defined in the Energa SA Compensation Regulations approved by Resolution No. 46/I/2007 of the Energa SA Management Board on 25 July 2007, Annex 7 of 5 December 2017 which introduced, as an attachment to the Compensation Regulations, the rules of Energa SA employee bonus fund, Annex No. 8 to the Energa SA Compensation Regulations of 28 August 2019, adopting a new table of job classification and monthly remuneration rates at Energa SA and the Agreement on protecting employee, social and union rights dated 18 September 2017.

In addition, due to employee takeover within the Group under a trilateral agreement (agreements among employing establishments), the following regulations are applicable:

1. the Multi-Employer Collective Bargaining Agreement for Power Industry Employees,
2. Energa Operator SA Compensation Regulations,
3. the Company Collective Bargaining Agreement of Energa Operator SA, Gdańsk Branch,
4. the Company Collective Bargaining Agreement of Energa Kogeneracja Sp. z o.o.

As at 31 December 2020, 39 managers were employed under contracts for management services, including five members of the Company's Management Board. The costs of services are not charged to the payroll fund.

### Material information relevant to the HR and payroll situation

#### Employee benefits

In 2020, the system of additional employee benefits at the Company included, among others:

1. An annual bonus equal to 8.5% of the previous year's annual payroll fund, payable in proportion to the length of employment,
2. The "employee rates" for electricity offered after one year of employment in the power industry,
3. Holiday benefits paid to employees for Easter, the Power Engineers' Day and Christmas,
4. The Employee Pension Plan funded by the employer at the rate of 7% of employee remuneration,
5. Employee Capital Plans within the Group companies funded by employers at the rate of 1.5% of employee remuneration,
6. A supplement to the base remuneration, depending on years of service,
7. Anniversary bonus,
8. The Additional Medical Services Plan. All employees are entitled to additional medical services under the Guaranteed Package, which is funded by the employer,

9. The Company Social Benefits Fund permitting contributions equal to twice the annual basic contribution set out in the Act on the Company Social Benefits Fund (CSFB).

Employees enjoy the rights arising from the Agreement Securing Employee, Social and Union Rights of 18 September 2017.

In addition, under the collective agreement of 23 January 2020 on the allocation of assets to salary growth at Energa in 2020, employees received additional Easter, the Power Engineers' Day and Christmas bonuses.

As of 31 December 2014, the Company withdrew from the Multi-Employer Collective Bargaining Agreement. As a result, employees hired after 1 January 2015 are not entitled to the benefits listed in points 1, 5 and 6 above.

The company offers training and other forms of personal development to its employees to maintain high level competence, to expand knowledge and to make a valuable contribution to the Company's operations.

### **Changes in wage conditions**

Based on the Agreement of 5 November 2019 on determining payroll increases for Energa Group Employees in 2020 and the Agreement of 23 January 2020 on determination of pay rise for Employees of Energa SA regarding distribution of funds allocated to pay rises in 2020, as of 1 January 2020 Company employees received base salary raises.

### **Collective dismissals**

In 2020, there were no lay-offs at the Company.

### **Collective disputes**

In 2020, the Company did not engage in any labour disputes.

## **9.4. Information on the statutory audit firm**

The statutory audit firm engaged to audit the financial statements of Energa SA and of the Energa Group is KPMG Audyt Spółka z ograniczoną odpowiedzialnością spółka komandytowa ("KPMG").

The agreement between Energa SA and KPMG was concluded on 28 June 2019 and covers the audit of standalone and consolidated financial statements of the Company and of the Group for 2020 and a review of the statements for H1 2020. Aside from the audit of financial statements in 2020, KPMG performed a covenant review service for Energa SA. Therefore, the Audit Committee evaluated the independence of the audit firm and approved the provision of the service.

**Table 43: Remuneration of the auditor for services provided to the Group ('000 PLN)**

	<b>Year ended 31 December 2019</b>	<b>Year ended 31 December 2020</b>
Audit of annual statements	622	713
Other assurance services, including review of financial statements	309	352
Other services	27	81
<b>TOTAL</b>	<b>958</b>	<b>1,146</b>



Water power station in Gałąźnia Mała on river Słupia

## Corporate Governance Statement



## 10. CORPORATE GOVERNANCE STATEMENT

In 2020, the Company and its bodies were subject to the corporate governance rules described in the set of documents accepted by Resolution No. 26/1413/2015 of the Supervisory Board of the Warsaw Stock Exchange of 13 October 2015 as the Good Practices for WSE Listed Companies for 2016 (Good Practices), published on the website of the Warsaw Stock Exchange and in the Investor Relations section of the Company's website.

### 10.1. Application of rules of Corporate Governance

As at 31 December 2020 Energa SA does not apply principle III.Z.3 – the Company does not comply with the requirement of Standard 1110-1, but only with respect to the organisational independence of appointing and dismissing the Internal Audit Manager (IAM) and the approval and changes of his or her remuneration. The standard referred to above has been defined in the International Standards for the Professional Practice of Internal Auditing by the Institute of Internal Auditors. Moreover, IAM does not functionally report to the Supervisory Board.

In the absence of a decision on the publication of forecasts and considering the provisions of the Regulation of the Minister of Finance on Current and Interim Information of 29 March 2018, the Specific Principle I.Z.1.10 did not apply, either.

In addition to applying the principles set out in the Best Practices, Energa tries to communicate with equity market participants by publishing materials that meet the needs of investors, such as files with multi-annual quarterly data of the Group and estimated financial and operating data for each reporting period in the form of current reports available on the Company's website.

### 10.2. Significant shareholders

For information on the shareholding structure, please see Section 8.1. *Energa's shareholding structure* of this Report.

### 10.3. Holders of stock with special control rights and a description of special control rights

Until 30 April 2020 the State Treasury owned the majority block of Company's shares, and held 144,928,000 series BB registered shares, preferred in terms of voting at the General Meeting, where one BB share carries two votes at the General Meeting.

Furthermore, the State Treasury, as a Company's shareholder, was individually authorised to appoint and dismiss a part of the members of the Company's Supervisory Board, and also to select the Chairman of the Supervisory Board, under the rules laid out in the Company's Articles of Association.

At the same time, in accordance with the Company's Articles of Association, the State Treasury, as a shareholder of the Company, had the right to obtain:

1. information regarding the Company and the Group in the form of a quarterly report, in accordance with the applicable guidelines, subject to the pertinent regulations governing the disclosure of confidential information,
2. copies of announcements which are subject to obligatory publication in *Monitor Sądowy i Gospodarczy*,
3. complete sets of documents which must be debated by the Annual General Meeting in accordance with Article 395 sec. 2 of the Commercial Companies Code (CCC), i.e.: financial statements (consolidated financial statements of the Group), Management Board report on the Company's operations (Management Board report on the Group's operations) for the previous financial year, the auditor's opinion and report on the audit of the Company's financial statements (consolidated financial statements of the Group), Supervisory Board report, Management Board's recommendation on profit distribution or loss coverage,
4. consolidated text of the Articles of Association within 4 weeks from the date of entry of amendments to the Articles of Association in the business register.

Following the sales of all Company's shares held by the State Treasury to PKN ORLEN on 30 April 2020, including 144,928,000 series BB registered shares, the preference to the voting right at the General Meeting of Shareholders under these shares, as described above, vests with PKN ORLEN.

At the same time, following the sale of Company's shares and the loss of status of the Company's shares, the aforementioned personal rights of the State Treasury to appoint and recall some of the members of the Supervisory Board of the Company and appoint Chairman of the Supervisory Board, as well as rights mentioned in subparagraph 1 – 4 above, expired.

On 29 June 2020, the Ordinary General Meeting of Shareholders of Energa SA amended the Articles of Association of Energa SA by repealing all the existing content of the Articles of Association and adopting the new content. On 17 July 2020 the changes were entered into the Register of Entrepreneurs of the National Court Register and came into force. In accordance with § 17.3 and § 18.1 of Articles of Association, PKN ORLEN has the personal right to appoint and dismiss, by means of a written statement, some members of the Supervisory Board of the Company, as well as the right to appoint the Chairman of the Supervisory Board, on the terms specified in the Company's Articles of Association.

#### **10.4. Restrictions on voting rights**

With Resolution 5 of 22 April 2020 the Extraordinary General Meeting of Shareholders of Energa SA amended § 27 of the Company's Articles of Association abolishing restrictions on the exercise of voting rights by shareholders, usufructuaries and pledgees holding shares representing more than 10% of the total vote at the General Meeting as at the date of the General Meeting.

Pursuant to Art. 430 § 1 of the Code of Commercial Companies, in order to amend the Articles of Association, apart from the resolution of the General Meeting, a constitutive entry in the register of entrepreneurs of the National Court Register is required, which was made on 20 May 2020.

#### **10.5. Restrictions on transfer of ownership of securities**

As at the date of this Report, there are no restrictions on the transfer of ownership of the Company's securities.

#### **10.6. Amendments to the Articles of Association**

Amendments to the Articles of Association must be made in accordance with the provisions of the Code of Commercial Companies. In particular, an amendment to the Articles of Association requires a resolution of the General Meeting adopted by a three-quarters majority vote, and subsequently it has to be constitutively recorded in the register of entrepreneurs of the National Court Register. For matters listed in § 28.1 of the Company's Articles of Association (which also require amendments to the Articles of Association), a resolution of the General Meeting requires a qualified majority of 4/5 of the votes cast. The Company's General Meeting may authorise the Supervisory Board to establish the consolidated text of the amended Articles of Association or make other editing changes as specified in a resolution of the General Meeting.

On 22 April 2020 the Extraordinary General Meeting of Shareholders of Energa SA amended § 27 of the Company's Articles of Association to repeal statutory restrictions on voting rights, by repealing existing subparagraphs 1 – 7 and changing numbering of existing subparagraphs 8 and 9 to 1 i 2 respectively. On 20 May 2020 the changes were entered into the Register of Entrepreneurs of the National Court Register.

On 29 June 2020, the Ordinary General Meeting of Shareholders of Energa SA amended the Articles of Association of ENERGA SA by repealing all the existing content of the Articles of Association and adopting the new content. On 17 July 2020 the changes were entered into the Register of Entrepreneurs of the National Court Register.

#### **10.7. Corporate bodies**

##### **The General Meeting**

The rules of procedure of the Company's General Meeting are set out in the CCC and in the Articles of Association. Additional issues concerning the conduct of the General Meeting are governed by the Rules of Procedure of the General Meeting (available on the Company's corporate website).

Shareholders have certain rights associated with the General Meeting which arise expressly from the applicable provisions of law.

## **Manner of convening the General Meeting**

The General Meeting is convened by means of a notice published on the Company's website and in the manner prescribed for the provision of current information in the Act on Offering, i.e. in the form of current reports. The notice must be published at least 26 days before the date of the General Meeting, in accordance with the provisions of the CCC.

In line with the Articles of Association, the General Meeting is convened by the Management Board:

1. on its own initiative,
2. at the written request of the Supervisory Board,
3. at the written request of a shareholder or shareholders representing at least one-twentieth of the share capital.

As a general rule, a properly convened General Meeting is valid irrespective of the number of shares represented therein.

General Meetings can be held either at the Company's registered office in Gdańsk or in Warsaw.

## **Conduct of the Ordinary General Meeting**

The General Meeting is opened by the Chairperson or Vice-Chairperson of the Supervisory Board, and in their absence – by the President of the Management Board or a person designated by the Management Board. Subsequently, the Chair of the Meeting is elected from among the persons entitled to participate in the General Meeting, in accordance with the Rules of Procedure of the General Meeting.

Resolutions must not be passed on items not covered by the agenda of the General Meeting, unless the entire share capital is represented therein and no one of those present has objected as regards the adoption of such resolutions.

Voting is open. Voting by secret ballot is ordered in the case of elections and motions to dismiss members of the Company's governing bodies or liquidators, motions to hold them liable, as well as in personnel-related matters. Further, a secret ballot must be ordered at the request of at least one of the shareholders present or represented at the General Meeting.

Resolutions of the General Meeting are adopted by an absolute majority, unless the CCC or the Articles of Association provide otherwise.

The General Meeting may order adjournments (by a two-thirds majority), which may not last longer than 30 days altogether.

## **Powers and responsibilities of the General Meeting**

Key powers and responsibilities of the General Meeting, as prescribed by the CCC and the Articles of Association, include in particular:

1. reviewing and approving the reports of the Management Board on the activities of the Company and the Energa Group, standalone financial statements of the Company and the consolidated financial statements of Energa Group for the previous financial year,
2. granting discharge to the members of the corporate bodies,
3. distribution of profit or coverage of loss,
4. changing the line of business of the Company,
5. amending the Articles of Association,
6. share capital increases or decreases,
7. merger, demerger or transformation of the Company,
8. dissolution or liquidation of the Company,
9. issue of convertible bonds or bonds with the right of priority and subscription warrants referred to in art. 453 § 2 of the Code of Commercial Companies,
10. disposal or lease of the enterprise or a branch of activities and creation of limited property rights thereon,

11. the establishment, use or dissolution of the capital accounts or funds referred to in § 31 section 1 item 5 and section 2 of the Company's Articles of Association, created by way of a General Meeting resolution,
12. appointment and dismissal of members of the Supervisory Board and determining the rules and level of their remuneration,
13. conclusion of the agreement referred to in art. 7 of the Code of Commercial Companies,
14. the Company's acquisition of its treasury stock in the situation referred to in Article 362 § 1 Item 2 of the Commercial Companies Code,
15. execution by the Company of a loan, advance or surety agreement or another similar agreement with a member of the Management Board, a member of the Supervisory Board, a commercial proxy (prokurent) or a liquidator, or in favour of any such person,
16. shifting of the dividend record date, indication of the dividend payable date or splitting of the dividend payment into instalments,
17. all decisions concerning claims for damage caused in the course of the formation of the Company or the exercise of management or supervision,

The Extraordinary General Meeting of Shareholders of the Company took place on 22 April 2020. The content of the resolutions adopted by that Meeting was published in Current Report No. 31/2020 dated 22 April 2020.

The Ordinary General Meeting of the Company took place on 29 June 2020. The content of the resolutions adopted by that Meeting was published in Current Report No. 56/2020 dated 29 June 2020.

The Extraordinary General Meeting of Shareholders of the Company took place on 29 October 2020. The content of the resolutions adopted by that Meeting was published in Current Report No. 71/2020 dated 29 October 2020.

## **The Supervisory Board**

### **Composition**

In FY 2020 and until the date of this Report, the composition of the Energa SA Supervisory Board has been as follows:

1. in the period from 1 January 2020 to 19 March 2020:
  - a) Paula Ziemecka-Księżak – Chairperson of the Supervisory Board,
  - b) Zbigniew Wtulich – Vice-Chairperson of the Supervisory Board,
  - c) Agnieszka Terlikowska-Kulesza – Secretary of the Supervisory Board,
  - d) Andrzej Powalowski – Member of the Supervisory Board,
  - e) Marek Szczepaniec – Member of the Supervisory Board,
  - f) Maciej Żółtkiewicz – Member of the Supervisory Board.
2. in the period from 19 March 2020 to 21 April 2020:
  - a) Paula Ziemecka-Księżak – Chairperson of the Supervisory Board,
  - b) Zbigniew Wtulich – Vice-Chairperson of the Supervisory Board,
  - c) Agnieszka Terlikowska-Kulesza – Secretary of the Supervisory Board,
  - d) Andrzej Powalowski – Member of the Supervisory Board,
  - e) Marek Szczepaniec – Member of the Supervisory Board,
  - f) Maciej Żółtkiewicz – Member of the Supervisory Board,
  - g) Trajan Szuladziński – Member of the Supervisory Board.
3. in the period from 22 April 2020 to 29 June 2020:
  - a) Paula Ziemecka-Księżak – Chairperson of the Supervisory Board,
  - b) Zbigniew Wtulich – Vice-Chairperson of the Supervisory Board,
  - c) Agnieszka Terlikowska-Kulesza – Secretary of the Supervisory Board,
  - d) Andrzej Powalowski – Member of the Supervisory Board,
  - e) Maciej Żółtkiewicz – Member of the Supervisory Board,
  - f) Trajan Szuladziński – Member of the Supervisory Board.
4. between 29 June 2020 and 1 December 2020:
  - g) Paula Ziemecka-Księżak – Chairperson of the Supervisory Board,
  - h) Jarosław Dybowski – Vice-Chairman of the Supervisory Board,

- |    |                               |                                       |
|----|-------------------------------|---------------------------------------|
| i) | Trajan Szuladziński           | – Secretary of the Supervisory Board, |
| j) | Agnieszka Terlikowska-Kulesza | – Member of the Supervisory Board,    |
| k) | Agnieszka Żyro                | – Member of the Supervisory Board,    |
| l) | Sylvia Kobyłkiewicz           | – Member of the Supervisory Board.    |
5. from 1 December 2020 until the date of the Report:
- |    |                               |   |
|----|-------------------------------|---|
| m) | Paula Ziemecka-Księżak        | – Chairperson of the Supervisory Board,   |
| n) | Jarosław Dybowski             | – Vice-Chairman of the Supervisory Board, |
| o) | Trajan Szuladziński           | – Secretary of the Supervisory Board,     |
| p) | Agnieszka Terlikowska-Kulesza | – Member of the Supervisory Board,        |
| q) | Agnieszka Żyro                | – Member of the Supervisory Board,        |
| r) | Sylvia Kobyłkiewicz           | – Member of the Supervisory Board,        |
| s) | Marta Marchewicz              | – Member of the Supervisory Board,        |
| t) | Michał Róg                    | – Member of the Supervisory Board.        |

On 19 March 2020 the Minister of State Assets issued a declaration appointing Mr Trajan Szuladziński as a member of the Supervisory Board.

On 21 April 2020 the Minister of State Assets issued a declaration dismissing Mr Trajan Szuladziński as a member of the Supervisory Board.

On 22 April 2020, the Extraordinary General Meeting of Shareholders of Energa SA recalled Mr Marek Szczepaniec from the Supervisory Board of Energa SA and appointed one Member of the Supervisory Board for the 5th Term of Office, Mr Trajan Szuladziński.

In connection with expiry of the Supervisory Board's 5th Term of Office, on 29 June 2020 the Ordinary General Meeting Shareholders of Energa SA set the number of Supervisory Board Members and appointed six members of the Supervisory Board for the 6th Term of Office, namely Ms Paula Ziemecka-Księżak as a Member of the Supervisory Board meeting criteria of independence, Ms Agnieszka Terlikowska-Kulesza as a Member of the Supervisory Board meeting criteria of independence, Mr Trajan Szuladziński as a Member of the Supervisory Board meeting criteria of independence, Mr Jarosław Piotr Dybowski, Ms Agnieszka Żyro and Ms Sylvia Kobyłkiewicz.

On 1 December 2020, the majority shareholder of the Company, PKN ORLEN S.A., submitted statements on appointment of Ms Marta Marchewicz and Mr Michał Marek Róg to the Supervisory Board of the Company of 6th joint term of office, pursuant to art. 385 § 2 of the Code of Commercial Companies and § 17.3 of the Company's Articles of Association of 1 December 2020.

Ms Paula Ziemecka-Księżak, Ms Agnieszka Terlikowska-Kulesza and Mr Trajan Szuladziński satisfy the independence criteria envisaged for independent supervisory board members in accordance with requirements of the Best Practices of WSE Listed Companies, and also for independent members of the Audit Committee, within the meaning of the Act of 11 May 2017 on Statutory Auditors, Audit Firms and Public Oversight (Journal of Laws of 2017, item 1089).

The current term of office of the Supervisory Board of the Company shall end on the day on which the General Meeting approves the financial statements for the financial year 2022.

**Paula Ziemecka-Księżak** graduated from the Leon Koźmiński Entrepreneurship and Management College. In 1996, she began her employment with the Ministry of Treasury. She worked in departments responsible for the oversight of state-owned companies. She conducted oversight of companies in the motor transportation and marine transport sectors and also in the energy sector. Currently, she is the Head of the Supervision Division of the Department of Supervision and Ownership Policy of the Energy Ministry. Her scope of duties comprises supervision of overall economic and legal issues associated with the activity of State Treasury-owned companies from, among others, the black coal mining and power sectors. Additionally, she gained experience related to supervision of operations of State Treasury-owned companies from 2002, by serving in supervisory bodies of such companies as SIP-MOT SA in Zamość, PKS Ostrołęka SA, Opakomet SA based in Kraków and PERN SA based in Płock. She has been the Chairperson of the Energa SA Supervisory Board since 12 November 2015.

**Agnieszka Terlikowska-Kulesza** graduated from the Agricultural Faculty of the Warsaw University of Life Sciences and postgraduate studies at the Warsaw School of Economics in finance and European economic and legal relations. In February 1997, she started work at the Ministry of State Treasury, in the Department of Commercialisation and Direct Privatisation, in the Tender Privatisation Team. Between September 1997 and June 2002, she worked for the Privatisation Agency in the Tender Team as the chief specialist and then as the Section Manager. During that period, she participated in the organisation of tenders for the selection of entities performing pre-privatisation analyses of companies with State Treasury holdings, she oversaw and



executed privatisation projects, conducted mainly through the invitation to tender procedure, she verified economic and financial analyses and valuations of companies with State Treasury holdings slated for privatisation. Between July 2002 and June 2016, she was the chief specialist in State Treasury-owned corporate supervision departments at the State Treasury Ministry. She supervised companies from the ceramic, construction and vehicle transportation industries. In 2009–2016, she supervised chemical sector companies. Since July 2016, she has been chief specialist at the Department of Supervision and Ownership Policy at the Energy Ministry, where she is overseeing mining sector companies. She gathered additional experience by serving in 2001–2016 in supervisory bodies of companies with State Treasury holdings such as: "Chłodnia Szczecińska" Sp. z o.o., Zakłady Ceramiczne "Bolesławiec" w Bolesławcu Sp. z o.o., Przedsiębiorstwo Komunikacji Samochodowej w Białymstoku SA, Przedsiębiorstwo Robót Drogowych Sp. o.o. in Mielec, Przedsiębiorstwo Elektryfikacji i Robót Instalacyjnych "ELTOR-Warszawa" Sp. z o.o. in Wołomin.

**Trajan Szuladziński** is a graduate of the Faculty of Law, in 2009 he obtained the title of Master of Business Administration at postgraduate studies conducted by the University of Gdańsk and the Business Center Club and RSM Erasmus University as a validation institution. In 2004, he obtained the title of tax advisor. He is a court-appointed expert at the Regional Court in Warsaw in the field of accounting, finance and book-keeping. From August 2017 to November 2019, he was the President of the Management Board at Grupa Azoty Kopalnie i Zakłady Chemiczne Siarki Siarkopol SA – responsible for the financial, accounting and legal division, as well as mining and railway plant. Between 2006 and 2007, he was the President of the Management Board of Bankowe Towarzystwo Kapitałowe SA – a private equity company dealing in capital investments in the sector of small and medium enterprises. From 2007 to 2008, he was a Vice President responsible for the finance and accounting division at Centrum Finansowe Puławska Sp. z o.o. (a company dealing in management of and investment in real estate). Between 2008 and 2010, he was a Deputy Director in the Office of the President of the National Bank of Poland. Chairman or member of the supervisory boards of such companies as: Grupa Azoty Kopalnie i Zakłady Chemiczne Siarki Siarkopol SA, Zakłady Chemiczne „Zachem” SA, Agencja Inwestycyjna CORP SA, Konsorcjum Ochrony Kopalń sp. z o.o., Finder SA, PL Energia sp. z o.o., Management Board of Pałac Kultury i Nauki sp. z o.o., Holding Wars SA. Wrote articles and studies on tax law. Lectured in tax law, among others during notary applications.

**Jarosław Dybowski** is an experienced manager with more than 20 years of management experience in companies with Polish and foreign capital. Graduate of the Gdańsk University of Technology, majored in Power Engineering. Graduate of a Postgraduate Management Course at the Warsaw School of Economics and The Management Training Program for Eastern Europe at Lovanium International Management Center. Has been professionally involved in the power engineering sector since 1985. An active participant in strategic development processes of Polish and European energy. Co-author of Poland's first Power Engineering System Integrated Development Plan. Introduced new standards for trading in electricity based on EFET contracts. Negotiated long-term contracts for the modernization and development of manufacturing sources in Poland, including contracts in the Project Finance process. Has extensive expertise in the field of energy markets (electricity, gas, coal, certificates) in Poland and Central and Southern European countries. Co-developed and implemented strategies in the field of energy generation, trading and sales in many domestic and foreign companies.

**Agnieszka Żyro** is a graduate of the Academy of Bydgoszcz (currently the Kazimierz Wielki University in Bydgoszcz), majored in administration and MBA at the Poznań University of Economics and Business. Also graduated from post-graduate studies in accounting, economic analysis and controlling (Poznań University of Economics and Business) and integrated IT systems (Kozminski University), as well as the Human Capital Management Academy at IBD Business School Sp. z o.o. A manager with many years of experience, especially in the field of managing energy companies. At the beginning of her professional career she worked for ENEA Serwis sp. z o.o. (1998-2017), where she developed the HR area and then became the Vice President of the Management Board for Human Resources. Since April 2017, the President of the Management Board of ENERGA Logistyka sp. z o.o. and since March 2018 the President of the Management Board of ANWIL S.A., a company of the ORLEN Group.

**Sylwia Kobyłkiewicz** is a graduate of the Częstochowa University of Technology, where she majored in corporate finance management, corporate financial analysis and took post-graduate studies in the fields of tax and accounting. A graduate of Executive MBA at the University of Commerce and Services in Poznań. From 1992 to 1995 she performed management functions and worked as the Chief Accountant and served as a member of the Management Board in a number of companies. Has extensive professional experience in government and local government administration, where she worked for more than 15 years. From 2001 to 2007, she worked at the Tax Inspection Office in Katowice and obtained a licence of a Tax Inspector. In 2014-2015, she provided consulting services in the area of finance and public procurement, administrative proceedings, as well as tax law for local governments in the Małopolskie voivodeship. At the beginning of 2016, she became acting Head of the Tax Inspection Office in Katowice, and then acting Head of the Tax Inspection Office in Kraków. In 2017, she became the Director of Audit and Security of ENERGA Wytwarzanie S.A. and then worked as the Director of Finance of ENERGA SA. At PKN ORLEN S.A. she worked as the Director of the Office of Audit, Financial Control and Corporate Risk Management. Currently, she is a Member of the Management Board of ORLEN Upstream Sp. z o.o. Sylwia Kobyłkiewicz has completed a number of training



courses organised by the Ministry of Finance. Winner of the competition of the Minister of Finance on income tax harmonisation in the light of the principles arising from EU directives.

**Marta Marchewicz** is a graduate of the Faculty of Law and Administration at the University of Gdańsk, Poland. She is a certified legal counsel. She has completed a postgraduate course in compliance policy development, including strategies for responsible and effective management of organizational decision-making, at the Kozminski University in Warsaw, Poland. Marta Marchewicz has over 10 years' professional experience in the energy and fuel sector, including corporate governance and coordination of management processes in public sector companies. She has accumulated extensive professional experience in the area of corporate governance, corporate law, as well as investment projects and synergistic business processes. In 2018-2019, she was a Member and then Vice-Chair of the Supervisory Board of ANWIL S.A., and in 2020 she served as a Member of the Supervisory Board of RUCH S.A., holding the role of Secretary of the Board. In October 2019, she was appointed to the Supervisory Board of ORLEN Południe S.A. At present, Marta Marchewicz is the Deputy Director at PKN ORLEN Group Office which exercises corporate governance over companies belonging to ORLEN Group. Her responsibilities include formal and legal supervision and coordination of activities aimed at ownership structure optimization.

**Michał Róg** has been a Member of the Management Board of PKN ORLEN since 1 September 2018. Graduate of the Cracow University of Economics, faculty of Management and Marketing and Canadian International Management Institute and Harvard Business School. Graduate of Executive MBA organised by the Cracow University of Technology and Central Connecticut State University. More than 20 years of professional experience at TELE-FONIKA KABLE S.A., where he worked as: Sales Vice-Director - Sector of Distribution and Power Engineering, Director of Sales and Product Development, Medium and High Voltage, Sales Director, the Balkans, Domestic Trade Director, Director of the Domestic Market Office. Member of the Management Board responsible for Trade at ORLEN OIL Sp. z o.o. with its registered office in Kraków from March 2018 to August 2018. Member of the Management Board of Paramo a.s. with its registered office in Pardubice, Czech Republic, from April to August 2018.

None of the above members of the Supervisory Board are engaged in any activities competitive to the business of Energa, participate in any competitive company as a partner of a partnership or as a member of a body of a corporation, or participate in any other competitive legal person as a member of its corporate bodies, neither is any of them listed in the Registry of Insolvent Debtors maintained pursuant to the Act on the National Court Register.

### **Powers and responsibilities of the Supervisory Board**

The powers and responsibilities of the Supervisory Board include, in particular:

1. assessing the Management Board's report on the Company's and Group's operations as well as the financial statements for the previous financial year and the consolidated financial statements of the Group in terms of their consistency with the records, relevant documents and the facts, assessing the Management Board's recommendations on allocation of profit or coverage of loss,
2. submitting annual written reports on the assessment results to the General Meeting, referred to in point 1,
3. preparation of reports in connection with oversight of the investments carried out by the Management Board and ensuring that investment spending is incurred in a correct and effective manner,
4. preparing, at least once per year, together with a report on the results of the assessment of the annual financial statements and the consolidated financial statements of the capital group, an opinion of the Supervisory Board on the economic viability of the Company's capital exposure to other commercial companies effected in the relevant financial year,
5. preparation and presentation, once a year, to the Annual General Meeting of a brief assessment of the Company's standing, including an evaluation of the internal control system and the system for managing the Company's material risks,
6. reviewing of and expressing opinion on issues which are to be the subject of resolutions of the General Meeting,
7. selecting the audit firm to examine the financial statements and the consolidated financial statements of the capital group,
8. specifying the scope and deadlines for submission of annual/long-term material and financial plans, other long-term plans and strategies for the Company and its capital group by the Management Board,
9. approving strategies for the Company and its capital group,
10. approving annual/long-term material and financial plans and investment plans for the Company and its capital group,
11. adopting rules of procedure detailing the procedures applicable to the activities of the Supervisory Board,

12. approving the rules of procedure of the Company's Management Board,
13. approving the Company's organisation policy,
14. approving the principles of the Company's sponsoring activity and assessing its effectiveness,
15. agreeing the consolidated text of the Company's Articles of Association,
16. granting consent to the Management Board to acquire and dispose of specific fixed assets as well as concluding specific contracts,
17. determining the individual conditions for the provision of services by members of the Management Board, as part of the resolution of the General Meeting of Shareholders as referred to in § 27 section 1 clause 8) of the Articles of Association,
18. determining the Rules of the Bonus System for members of the Management Board,
19. suspending, for major reasons, individual or all members of the Management Board, as well as delegating members of the Supervisory Board, for a period not exceeding three months, to perform temporarily the duties of Management Board members who are at the time unable to perform their duties and setting their remuneration, provided that the total remuneration received by the delegated person for his or her performance of the function of a Supervisory Board member and his or her temporary performance of the duties of a Management Board member does not exceed the salary set in respect of the Management Board member being filled in for by the delegated member of the Supervisory Board, granting consent for the establishment of the Company's branches abroad,
20. authorizing Management Board members to assume positions in corporate bodies of other companies and collecting resulting remuneration,
21. defining the mode for exercising the voting right by the Company at the general meetings or shareholders' meetings of companies,
22. granting the consent to conclude a material transaction with an entity related to the Company within the meaning of the Act of 29 July 2005 on Public Offering and on the Terms of Introducing Financial Instruments into Organised Trading and on Public Companies,
23. developing a procedure for periodic assessment whether material transactions with a related party of the Company are concluded on an arm's length basis as part of the ordinary business of the Company or a subsidiary of the Company.

A detailed description of the powers and responsibilities of the Supervisory Board is provided in the Company's Articles of Association, published on the Company's website.

#### **Method of operation of the Supervisory Board**

The Supervisory Board consists of 5 to 9 members. The Supervisory Board is responsible for the permanent supervision of the operations of the Company, in accordance with the CCC and the Articles of Association. The detailed operating procedure is defined in the Rules of Procedure of the Supervisory Board, available on the corporate website.

The Supervisory Board carries out its activities as a body. Members of the Supervisory Board participate in meetings, exercise their rights and perform their obligations in person.

As a general rule, the Supervisory Board adopts its resolutions at meetings held at least once every two months.

Meetings of the Supervisory Board shall be convened by the Chairman or another authorised member of the Supervisory Board, presenting a detailed agenda. A meeting should also be convened at the request of any Supervisory Board member or of the Management Board.

Meetings of the Supervisory Board are chaired by the Chairperson, and in his or her absence – by the Vice-Chairperson.

Supervisory Board members may attend meetings and vote on resolutions adopted during such meetings by direct remote communication.

In accordance with the Articles of Association, the Supervisory Board may adopt resolutions if at least half of its members are present at the meeting and all Supervisory Board members have been invited to the meeting.

The Supervisory Board may adopt resolutions independently of its meetings, either by circulation or by means of distance communication, including in particular e-mail. Such resolution is valid if all members of the Supervisory Board have been notified of the wording of the draft resolution.

Supervisory Board resolutions are passed by an absolute majority of votes, and in the event of a tie vote, the Chairperson's vote is decisive.

The Supervisory Board adopts resolutions in an open ballot.

For important reasons, the Supervisory Board may delegate individual members to perform certain supervisory activities on their own.

The Supervisory Board may delegate its members, for no longer than three months, to perform temporarily the duties of Management Board members who are unable to perform their duties.

A detailed description of the activities of the Supervisory Board is contained in the Report on the activities of the Supervisory Board, submitted annually to the General Meeting and published on the corporate website of the Company.

The Supervisory Board appoints the Audit Committee and the Nomination and Compensation Committee.

From 1 January to 31 December 2020, the Supervisory Board of Energa SA held 12 meetings and adopted 169 resolutions. In 2020, three meetings of the Supervisory Board took place without all members in attendance. Each time the Supervisory Board made a decision in the form of a resolution to excuse the absence of a given Supervisory Board member, based on the information provided by that member about reasons for the absence.

## **The Audit Committee**

The operating principles of the Audit Committee are defined in the Articles of Association of Energa SA and the Rules of Procedure of the Supervisory Board, available on the Company's website.

The Audit Committee operates as a body and provides advice and opinion to the Supervisory Board.

The tasks of the Audit Committee shall in the first instance include:

- 1) monitoring of:
  - a) the financial reporting process,
  - b) the effectiveness of the internal control system and the risk management and internal audit systems, including in the area of financial reporting,
  - c) the performance of audit activities, in the first instance audits carried out by an audit firm, taking into account any conclusions and findings of the Audit Supervision Committee arising from the inspection conducted in the audit firm,
- 2) inspecting and monitoring the independence of the registered auditor and the audit firm,
- 3) communicating audit findings to the Company's Supervisory Board and explaining how the audit contributed to the reliability of financial reporting in the Company, and what the role of the Audit Committee was in the audit process,
- 4) assessing the independence of the registered auditor and giving consent to the provision of permitted non-audit services to the Company thereby,
- 5) developing a policy for the selection of an audit firm to carry out an audit,
- 6) developing a policy for the provision of permitted non-audit services by an audit firm carrying out an audit, by entities affiliated to the audit firm and by a member of the audit firm's network,
- 7) defining the procedure for the selection of an audit firm by the Company,
- 8) making recommendations to the Supervisory Board regarding the appointment of an audit firm, in accordance with the policies referred to in sub-paragraphs 5 and 6 above,
- 9) making recommendations intended to ensure the reliability of the financial reporting process in the Company,
- 10) monitoring the operation of the Compliance Management System at the Company and in ENERGA Group.

The Audit Committee includes at least three members of the Board, where at least one member of the Audit Committee should have knowledge and skills in the field of accounting or auditing of financial statements. In addition, the majority of members of the Audit Committee, including the chairman of the Committee, should be independent and meet the criteria listed in art. 129 (3) of the Act of 11 May 2017 on Statutory Auditors, Audit Firms and Public Supervision (Journal of Laws of 2017, item 1089). Members of the Audit Committee should also have skills and knowledge in the industry in which the Company operates. This condition is considered to be fulfilled if at least one member of the Audit Committee has skills and knowledge of the industry or if individual members, to specific extent, have skills and knowledge of the industry.

In FY 2020 and to date, the composition of the Audit Committee has been as follows:

1. in the period from 1 January 2020 to 22 April 2020:
  - a. Marek Szczepaniec – Chairperson of the Committee,
  - b. Zbigniew Wtulich,
  - c. Andrzej Powałowski.
2. in the period from 22 April 2020 to 5 May 2020:
  - a. Zbigniew Wtulich,
  - b. Andrzej Powałowski.
3. in the period from 5 May 2020 to 25 May 2020:
  - a. Zbigniew Wtulich,
  - b. Andrzej Powałowski,
  - c. Trajan Szuladziński.
4. Between 25 May 2020 and 29 June 2020:
  - a. Trajan Szuladziński - Chairman of the Committee,
  - b. Zbigniew Wtulich,
  - c. Andrzej Powałowski.
5. From 2 July 2020 until the date of this Report:
  - a. Trajan Szuladziński - Chairman of the Committee,
  - b. Paula Ziemiańska-Książak,
  - c. Sylwia Kobyłkiewicz,
  - d. Agnieszka Terlikowska-Kulesza.

Since 18 October 2017, Marek Szczepaniec has been the Chairperson of the Audit Committee. On 22 April 2020, Mr Marek Szczepaniec was recalled from the Supervisory Board of Energa SA by the Extraordinary General Meeting of Shareholders of Energa SA.

On 5 May 2020 the Supervisory Board of the Company supplemented the Audit Committee by appointing Mr Trajan Szuladziński. On 25 May 2020 Mr Szuladziński became Chairman of the Audit Committee.

Following start of the 6th term of office of the Supervisory Board, on 2 July 2020 the Supervisory Board appointed the following members of the Supervisory Board to the Audit Committee:

1. Ms Paula Ziemiańska-Książak,
2. Ms Sylwia Kobyłkiewicz,
3. Mr Trajan Szuladziński,
4. Ms Agnieszka Terlikowska-Kulesza.

At a meeting of the Audit Committee on 2 July 2020, Mr Trajan Szuladziński was elected Chairman of the Committee.

A description of the Audit Committee's activities in the previous financial year, together with a detailed description of the activities undertaken by the Committee, are provided in the Report on the activities of the Audit Committee, which is an Appendix to the Report on the Activities of the Supervisory Board, submitted annually to the General Meeting and published on the Company's corporate website.

In 2020, the Audit Committee held 7 meetings, of which 6 took place with all members in attendance.

### **The Nomination and Remuneration Committee**

The scope of the Nomination and Compensation Committee's operations covers expressing opinions and conducting analyses to support the Supervisory Board in the performance of its duties defined by the Articles of Association in respect of the overall compensation policy for Management Board members, the Company's upper level management and in the other companies in Energa Group, and to articulate recommendations on appointing Management Board members.

The powers and responsibilities of the Nomination and Remuneration Committee shall in the first instance include:

1. conducting activities related to the recruitment of members of the Company's Management Board within the scope indicated by the Supervisory Board,

2. preparing draft contracts and templates of other documents in connection with serving as members of the Company's Management Board and supervising the performance of the contractual obligations assumed by the parties,
3. supervising the implementation of the Management Board's remuneration system, in the first instance preparing accounting documents concerning variable and bonus elements of remuneration,
4. monitoring and analysis of the compensation plan for the Management Boards and executives of Energa Group companies,
5. supervising the correct provision of contractual extra benefits to the Company's Management Board, such as personal and medical insurance, and use of company cars, apartments, etc.

In FY 2020, the composition of the Nomination and Compensation Committee was as follows:

1. between 1 January 2020 and 29 June 2020:
  - a. Paula Ziemińska-Księżak – Chairperson of the Committee,
  - b. Agnieszka Terlikowska-Kulesza,
  - c. Zbigniew Wtulich.
2. from 2 July 2020 until the date of this Report:
  - a. Agnieszka Żyro - Chairwoman of the Committee,
  - b. Sylwia Kobyłkiewicz,
  - c. Agnieszka Terlikowska-Kulesza.

4 meetings of the Nomination and Compensation Committee were held in 2020, all of which had all members in attendance.

A description of the Nomination and Compensation Committee's activities in the previous financial year is provided in the Report on the Activities of the Nomination and Compensation Committee, which is an attachment to the Report on the activities of the Supervisory Board.

## **The Management Board**

### **Rules of appointing and dismissing the members of the Management Board**

The Management Board may consist of one to five persons, including the President and optionally one or more Vice-Presidents of the Management Board. The term of office of the Management Board is three years, and all members serve the same term of office.

In accordance with the Articles of Association, Management Board members are appointed and dismissed by the Supervisory Board, which appoints one member as the President and may appoint one or more members as the Vice-President.

A member of the Management Board can also be:

1. dismissed or suspended from duty by the General Meeting,
2. suspended from duty for important reasons by the Supervisory Board.

The Supervisory Board appoints members of the Management Board following a qualification procedure.

A Management Board member may submit his or her resignation to another member of the Management Board or to the commercial proxy (*prokurent*). The resignation notice should be submitted in writing. The member of the Management Board must inform at least one member of the Supervisory Board of the resignation.

### **Composition**

Throughout 2020 and until the date of this Report, the Management Board of the Company has had the following members:

1. from 17 December 2019 to 16 January 2020:
  - a. Jacek Goliński – President of the Management Board,
  - b. Jacek Kościelniak – Vice-President of the Management Board for Finance,

- c. Grzegorz Ksepko – Vice-President of the Management Board for Corporate Matters,
- d. Adrianna Sikorska – Vice-President of the Management Board for Communication,
- e. Dominik Wadecki – Vice-President of the Management Board for Operations.
- 2. from 17 January 2020 to 9 February 2020:
  - a. Jacek Goliński – President of the Management Board,
  - b. Grzegorz Ksepko – Vice-President of the Management Board for Corporate Matters,
  - c. Adrianna Sikorska – Vice-President of the Management Board for Communication,
  - d. Dominik Wadecki – Vice-President of the Management Board for Operations.
- 3. from 10 February 2020 to 14 March 2020:
  - a. Jacek Goliński – President of the Management Board,
  - b. Marek Kasicki – Vice-President of the Management Board for Finance,
  - c. Grzegorz Ksepko – Vice-President of the Management Board for Corporate Matters,
  - d. Adrianna Sikorska – Vice-President of the Management Board for Communication,
  - e. Dominik Wadecki – Vice-President of the Management Board for Operations.
- 4. from 15 March 2020 to 6 May 2020:
  - a. Jacek Goliński – President of the Management Board,
  - b. Marek Kasicki – Vice-President of the Management Board for Finance,
  - c. Adrianna Sikorska – Vice-President of the Management Board for Communication,
  - d. Dominik Wadecki – Vice-President of the Management Board for Operations.
- 5. from 7 May 2020 until the date of preparation of this Report:
  - a. Jacek Goliński – President of the Management Board,
  - b. Marek Kasicki – Vice-President of the Management Board for Finance,
  - c. Adrianna Sikorska – Vice-President of the Management Board for Communication,
  - d. Dominik Wadecki – Vice-President of the Management Board for Operations,
  - e. Iwona Waksmundzka-Olejniczak – Vice-President of the Management Board for Corporate Matters.

On 27 November 2019, the Supervisory Board initiated the qualification procedures to appoint the President of the Management Board and the Vice-President of the Management Board for Communication that were completed on 13 December 2019.

As a result of the conducted qualification procedures, the Supervisory Board of Energa SA identified as the best candidates and subsequently appointed to the Management Board of the 6th Term of Office on 17 December 2019 the following persons:

- 1. President of the Management Board – Jacek Goliński,
- 2. Vice-President of the Management Board for Communication – Adrianna Sikorska.

On 16 January 2020, the Company's Supervisory Board passed a resolution to recall Jacek Kościelniak from the position of the Vice-President of the Management Board for Finance.

On 18 January 2020, the Supervisory Board of the Company initiated the qualification procedure to appoint the Vice-President of the Management Board for Finance, which was completed on 28 January 2020, without the best candidate being identified.

On 29 January 2020, the Company's Supervisory Board once again initiated the qualification procedure to appoint the Vice-President of the Management Board for Finance that was completed on 6 February 2020.

The procedure to appoint the Vice-President of the Management Board for Finance ended with the appointment of Marek Kasicki on 10 February 2020.

On 14 March 2020, the Company's Supervisory Board passed a resolution to recall Grzegorz Ksepko from the position of the Vice-President of the Management Board for Corporate Matters.

On 23 April 2020, the Company's Supervisory Board once again initiated the qualification procedure to appoint the Vice-President of the Management Board for Corporate Matters that was completed on 5 May 2020.

The procedure to appoint the Vice-President of the Management Board for Corporate Matters ended with the appointment of Ms Iwona Waksmundzka-Olejniczak on 7 May 2020.

The current 6th Term of Office of the Management Board of Energa SA will end on the day on which the General Meeting approves the financial statements for the financial year 2021.

**Jacek Goliński – President of the Management Board**



He is a graduate of the Faculty of Economics and Management at the Koszalin University of Technology (MA studies, 2014). In 2017, he completed a postgraduate studies program in agricultural economics and agro-energetics, and in 2018, he completed a postgraduate studies program Executive Master of Business Administration at the University of Commerce and Science in Poznań, which have helped him to improve his managerial skills by integrating competencies from such areas as management, finance and soft skills. Starting from October 2019, he performed the function of the President of the Management Board of ORLEN Paliwa Sp. z o.o., directing, managing and supervising the company's activity within a collective Management Board. He focused on developing the company, among others by seeking solutions aimed at the creation of new and the improvement of current processes, mechanisms, technologies and solutions that were already being used by the company, as well as products it manufactured or distributed, and the services it provided. Beginning from May 2018, he performed the function of the President of the Management Board of Inowrocławskie Kopalnie Soli "Solino" S.A., managing the company's activity and supervising the implementation of its key performance indicators. He developed and supervised the implementation of the company's strategy and also supervised the planning and implementation of investments. Among other things, he succeeded in making Ciech S.A. and Ciech Soda Polska S.A. conclude an agreement related to technical infrastructure, which enabled combining the saline solution transmission systems of the Salt Mine and the Underground Crude Oil and Fuel Storage Depot "Góra" with the saline solution transmission system of the Mogilno Salt Mine into a single logistics unit, under full control of IKS "Solino" S.A. From May 2017, as the General Director of the Gdańsk Branch of Energa Operator S.A., he implemented business processes, including operational management of grid assets, optimization of investment processes in terms of effectiveness of outlays made and optimization of processes enhancing the Branch's business effectiveness. In 2014, he operated as a sole trader in the field of energy consulting and was the Regional Sales Manager at PKP Energetyka S.A. Between 2007 and 2013, Jacek Goliński worked for Energa Obrót where he performed the function of an Authorized Representative of the Management Board and supervised the implementation of commercial plans, the building of the purchasing portfolio and direct care over strategic clients. Between 2004 and 2007, he coordinated tasks in the commercial area, among others, in Carlsberg Polska, Wella Polska and ZT Kruszwica. His current professional career is mostly associated with management, supervision over the company's activity as well as marketing, achievement of the set sales targets and optimization of business processes taking place in enterprises, in particular in the energy sector.

#### **Marek Kasicki – Vice-President of the Management Board for Finance**

A graduate of the Faculty of Management and Economics at the Gdańsk University of Technology (1995), French-Polish Postgraduate Studies in Banking and Finance (1995), Postgraduate Tax Studies (2001), Postgraduate Management Studies – Executive MBA (2010) organized by the Gdańsk Foundation for Management Education and Rotterdam School of Management Erasmus University. He started his professional career in 1995, first in the Financial Department of Danone Polska Sp. z o.o. and then in the Enterprise Analysis Department of Credit du Nord bank in France. In 1996, he joined Agencja Rozwoju Pomorza SA (ARP SA), initially as an investment specialist and, subsequently, he became its financial director and authorized representative. In 2007, he took the position of the Vice-President of the Management Board for Finance. As part of his work for ARP SA, he also dealt with the restructuring of state-owned enterprises, which included organization of the financing of their operations, preparation and implementation of effectiveness and remedial programs, budgeting and controlling systems. From 2009 to 2016, he also managed the ARP S.A. Capital Fund, under which investments in innovative projects (start-ups) were implemented. At the same time, from 2000 to 2007, he worked as Financial Director, Vice-President, President of the Management Board of the Pomerania SA Management Group. In that capacity, he implemented investment projects in the area of commercial real estate. From March 2016, as the Vice President of the Management Board of Energa Operator SA, he was responsible for the Finance and Regulation Division and the Distribution Services Division. In the Finance and Regulation Division, he supervised the budgeting and controlling of the company's operations as well as the entire Distribution Business Line of Energa SA. He also managed the company's financial liquidity in cooperation with Energa SA. He supervised the organisation and monitoring of financing of operational and investment activities from financial institutions, including the European Investment Bank and the European Bank for Reconstruction and Development, as well as regulatory policy, including the determination of all elements of regulated income of DSOs. Within the Distribution Services Division, he supervised the area of metering, issues related to customer service and the area of settlements with customers and the balancing market. He was a member of the supervisory boards of Mikrostyk SA, MODE SA, Pomorski Regionalny Fundusz Poręczeń Kredytowych Sp. z o.o., INVENO Sp. z o.o., i-Find.pl Sp. z o.o. and i-Trends Sp. z o.o. He has undergone training in IAS, corporate mergers and acquisitions. He has a state diploma for Candidates for Supervisory Board Members in State Treasury Companies.

#### **Adrianna Sikorska – Vice-President of the Management Board for Communication**

Vice-President of the Management Board of Energa since 17 December 2019. In charge of communication, corporate social responsibility, sponsorship and marketing activities. Adrianna is a manager with about a dozen years' professional experience in the areas of information, analysis and security. She has hands-on knowledge of building communication strategies, and knowledge of the financial mechanisms of businesses. Adrianna has experience in the key areas of operational business

management, i.e. communication, security, finance, logistics and human resources. In the years 2016 to 2019, she held board and managerial positions in the energy sector, being professionally associated with PKN ORLEN Capital Group entities. In the years 2013 to 2016, she provided consulting services in the areas of risk detection, business irregularities and their elimination. In the years 2007 to 2013, she was an economic analysis expert with the Central Anti-Corruption Bureau (CBA). From 1993 to 2007, she held specialist and expert positions with the Police. She completed her postgraduate Executive MBA studies at the University of Commerce and Services in Poznań. Adrianna graduated from the School of Entrepreneurship in Warsaw, the Lublin University of Technology, and the Police Academy in Szczytno.

#### **Dominik Wadecki – Vice-President of the Management Board for Operations**

Graduate of the Faculty of Law of the Catholic University of Lublin. Completed controller apprenticeship at the Supreme Audit Office with honours and postgraduate studies at the Collegium of Business Administration of the SGH Warsaw School of Economics. He began his professional career in 1997 in the banking sector, working for Pierwszy Komercyjny Bank S.A. in Lublin. From 1999 to 2007, he worked for the Supreme Audit Office, where he was responsible for examining the implementation of the state budget and monetary policy, privatization of banks, operation of capital market supervision authorities, the investment operations of banks, and the effectiveness of the tax relief and exemptions system. Has been involved in the energy sector since 2008. As an internal auditor at Polska Grupa Energetyczna, he examined the full range of operations of the companies belonging to the group, and participated in the development of the PGE operating model. In 2010, he was a member of the Supervisory Board and of the Management Board of PGE Zamojska Korporacja Energetyczna S.A. He gained executive experience at PGE Polska Grupa Energetyczna, as well as at Polska Spółka Gazownictwa sp. z o.o. and the National Fund for Environmental Protection and Water Management. Has worked for the Energa Group since 2017. He worked at Energa Logistyka Sp. z o.o. as the managing director, a management board member and, most recently, as the president of the management board.

#### **Iwona Waksmundzka-Olejniczak – Vice-President of the Management Board for Corporate Matters**

Ms. Iwona Waksmundzka-Olejniczak has long-standing experience in managing large teams and corporate structures, in particular in the oil & gas and banking sectors. She has an in-depth knowledge of the rules of the capital market, corporate governance, management of large projects as well as building and implementing company strategies. She joined PKN ORLEN SA in February 2018, first as Director of the Investor Relations Office, and since February 2019 as Executive Director, Strategy and Investor Relations, where her responsibilities include the development and implementation of the PKN ORLEN strategy and supervision over the implementation of strategic projects, preparation and execution of investment projects and divestitures, as well as the design and execution of the information policy and relationships with capital market participants. In 2016–2017, as a Director of successive departments at Bank Ochrony Środowiska SA, she supervised the bank's private banking and subsequently corporate banking business. From 2013 to 2016, as Brand Manager at Plus Bank SA, she was responsible for the creation, design and execution of the marketing strategy and external communication policy. From 2002 to 2012, she worked for Invest Bank SA, where she managed the sales network, was responsible for the development of the product range, design and execution of the bank's strategy, and managed key account relationships, in the following successive positions: Retail Banking Manager, Marketing and Analysis Manager and finally Brand Manager. From 2001 to 2002 she was the Key Account Manager at ComputerLand. In 1998–2001 she worked for Bank Współpracy Europejskiej, where she was responsible for key account relationships. She is a graduate of the Cracow University of Economics (Management and Marketing) and the University of Insurance and Banking in Warsaw (Finance and Banking). She holds an Executive MBA diploma awarded by the University of Commerce and Services in Poznań. She also completed a postgraduate Project Management programme at the Warsaw School of Economics. She is certified as a Financial Adviser by the European Financial Planning Association. She completed a wide range of courses and trainings in the field of financial market and managerial skills. She serves on the supervisory boards of UNIPETROL, a.s., ORLEN Upstream Sp. z o.o. and is the Vice Chairperson of the Supervisory Board at Baltic Power sp. z o.o. She was also a member of the Supervisory Board of ORLEN Centrum Usług Korporacyjnych Sp. z o.o.

None of the above members of the Management Board is engaged in any activities competitive to the business of Energa, participates in any competitive company as a partner of a partnership or as a member of a body of a corporation, or participates in any other competitive legal person as a member of its corporate bodies, neither is any of them listed in the Registry of Insolvent Debtors maintained pursuant to the Act on the National Court Register.

#### **Powers and responsibilities of the Management Board**

The Management Board proceeds in compliance with the CCC and the Articles of Association. The organisation and operating principles of the Management Board, including the matters which require resolutions, are set out in the Rules of Procedure of the Management Board approved by the Supervisory Board, published on the corporate website of the Company.

The Management Board administers the Company's business and represents the Company outside. Two members of the Management Board acting jointly or one member of the Management Board acting jointly with a proxy are authorised to make

statements of will on behalf of the Company in the case of a multi-person Management Board. In the case of a single-person Management Board, only a member of the Management Board is authorised to make statements of will on behalf of the Company.

Members of the Management Board supervise the areas of activity assigned to them and are responsible for the independent management of the Company's affairs as part of ordinary management, within the scope resulting from the division of competences determined in the resolution of the Management Board. As at the date of this Report, members of the Management Board, in order to manage matters falling within their competence individually, have functionally divided specific areas of the Company's activities, delegating:

- 1) to the President of the Management Board – functional oversight of the following areas of activity:
  - a) organisational management,
  - b) legal services,
  - c) audits and inspections,
  - d) strategic risk management,
  - e) safety and security,
  - f) HR policy of the Group, including recruitment of members of corporate bodies of the Energa Group companies,
  - g) social dialogue,
  - h) management by objectives.
- 2) To the Vice-President of the Management Board for Finance – functional oversight of the following areas of activity:
  - a) planning and financial analysis,
  - b) financial reporting and consolidation,
  - c) financial policy,
  - d) financial risk management within the Group,
  - e) business controlling,
  - f) investor relations,
  - g) stakeholder relations.
- 3) To the Vice-President of the Management Board for Operations – functional oversight of the following areas of activity:
  - a) regulatory policy,
  - b) environmental policy,
  - c) research, development and innovation,
  - d) IT,
  - e) operational supervision over the implementation of property investments through membership in steering committees.
- 4) To the Vice-President of the Management Board for Communications – functional oversight of the following areas of activity:
  - a) marketing and sponsoring,
  - b) internal and external communication,
  - c) CSR and relations with the environment,
  - d) press relations.
- 5) To the Vice-President of the Management Board for Corporate Matters – functional oversight of the following areas of activity:

- a) Strategy of the Energa Group,
- b) strategic asset management,
- c) market analysis and Group development,
- d) mergers and acquisitions,
- e) corporate governance within the Group,
- f) management of organisational/corporate governance within the Group.

#### **Method of operation of the Management Board**

Resolutions of the Management Board, as a general rule, are adopted at meetings. Meetings are held as scheduled, when required, however no less frequently than once every month.

Meetings of the Management Board are convened by the President of the Management Board.

As a general rule, meetings of the Management Board are chaired by the President of the Management Board. The meeting venue is either the registered office or a different venue specified by the President of the Management Board. Rules of the Management Board allow members of the Management Board to participate in the meeting by means of direct remote communications.

Management Board resolutions are passed by an absolute majority of votes. In the event of a tie vote, the vote of the President of the Management Board is decisive. Resolutions of the Management Board are valid provided that all members of the Management Board have been properly notified of the planned meeting and at least half of the members of the Management Board are present at the meeting.

The Management Board may adopt resolutions in a circular procedure or by means of direct communication at a distance. The detailed procedure for adopting resolutions in this way is specified in the Management Board's By-laws. A resolution adopted outside the meeting is valid when all members of the Management Board are effectively notified of the content of the draft resolution in the manner specified in the Rules of the Management Board and when at least half of the members of the Management Board participated in voting on the resolution.

In 2020, the Management Board of Energa SA held 49 meetings and adopted 557 resolutions.

### **10.8. Salaries of executive and supervisory staff**

#### **The Management Board**

On 29 June 2020, the Ordinary General Meeting adopted Resolution 33 on the adoption of the rules for setting the remuneration of Members of the Management Board of ENERGA Spółka Akcyjna and repealing resolution 20 of the Ordinary General Meeting of Shareholders of 25 June 2019. On the same day, under Resolution No 32 the Ordinary General Meeting adopted Remuneration Policy for Members of the Management Board and Supervisory Board of ENERGA SA,

In accordance with the rules adopted by the General Meeting of Shareholders, remuneration of a Member of the Management Board shall consist of a fixed part (hereinafter: Fixed Remuneration) and a variable part, which is supplementary remuneration for the financial year of the Company (hereinafter: Variable Remuneration).

The amount of the monthly Fixed Remuneration of Members of the Management Board of the Company shall be determined as an amount and may not exceed 15 times the average remuneration in the enterprise sector without payment of awards from profit, as specified in the Act of 9 June 2016 on the Rules of Structuring Remunerations of Persons Managing Certain Companies. The amount of the Fixed Remuneration for individual Members of the Management Board of the Company shall be determined in a resolution of the Supervisory Board.

The Variable Remuneration shall depend on the level of achievement by the Member of the Management Board of managerial goals set by the Supervisory Board and shall not exceed 100% of the Fixed Remuneration.

Based on the adopted remuneration principles, contracts for the provision of management services are concluded with members of the Management Board, which provide, among others, that:

1. subject to exceptions, if the contract is terminated or withdrawn from by the Company, the Member of the Management Board may be granted a severance pay in the amount not higher than 3 times the Fixed Remuneration, provided that the Member performed the function for at least 12 (twelve) months before the Contract is terminated;
2. A non-competition agreement in force after termination of the function may be concluded with a Member of the Management Board, where such an agreement shall enter into force after at least 3 (three) months of performance of the function by a Member of the Management Board, and the amount of non-competition compensation may not exceed 100% of monthly Fixed Remuneration received by a Member of the Management Board before the termination of the function, for a period corresponding to the period of non-competition. The non-compete period shall not exceed 6 (six) months after the member of the Management Board ceased to perform their function.

The individual salaries of the members of the Company's Management Board for 2020 are presented in the table below.

**Table 44: Salaries of members of the Management Board of Energa SA in the period from 1 January to 31 December 2020 (in PLN '000)**

Name	Period in office	Wages and salaries	Other benefits	Total*
Alicja Barbara Klimiuk*	from 1 January to 30 May 2019	0	87.1	87.1
Jacek Kościelniak	from 1 January to 16 January 2020	32.9	578.9	611.9
Grzegorz Ksepko	from 1 January to 14 March 2020	152.0	581.5	733.6
Jacek Goliński	from 1 January to 31 December 2020	792.7	37.2	829.9
Marek Kasicki	from 10 February to 31 December 2020	657.6	11.1	668.7
Adrianna Sikorska	from 1 January to 31 December 2020	739.8	48.6	788.5
Dominik Wadecki	from 1 January to 31 December 2020	739.8	190.0	929.8
Iwona Waksmundzka-Olejniczak	from 7 May to 31 December 2020	241.5	25.5	267.0
<b>TOTAL</b>		<b>3,356.4</b>	<b>1,560.0</b>	<b>4,916.5</b>

\*Payment of remuneration for the settlement of the annual bonus

Members of the Management Board were additionally entitled to benefits in kind in the previous year, including without limitation:

1. medical care for the member of the Management Board and his or her immediate family (up to PLN 500 net per month),
2. tied accommodation, in justified situations, or partial reimbursement of rental costs,
3. financing or reimbursement of individual training relating to the scope of activities performed for the Company,
4. use of the Company's assets that support performance of management operations.

The compensation plan for the members of the Management Board of Energa is based on management by objectives. Objectives are set on the basis of the current Energa Group Strategy, the Multi-Annual Plan of Strategic Investments and the internal and external challenges faced by the Energa Group. The payment of variable pay components to members of the Management Board of Energa SA depends on the degree and level of achievement of objectives. Additionally, the objectives of the Management Boards of Lead Entities of Business Lines and Company management are aligned with the objectives of the Management Board of Energa and cascaded in a top-down fashion. The existing model offers incentives and integrates the executives and managers around the objectives, encouraging co-ownership.

The system design allows both a focus on activities that are important from the perspective of the Energa Group and the fulfilment of the Group's ambitions. It is also important for the Company's shareholders, allowing to create long-term value for Energa and ensuring the stability of business operations.

## **The Supervisory Board**

Resolution 34 on the adoption of the rules for setting the remuneration of Members of the Supervisory Board of ENERGA Spółka Akcyjna and repealing resolution 21 of the Ordinary General Meeting of Shareholders of 25 June 2019. On the same day, under Resolution No 32 the Ordinary General Meeting adopted Remuneration Policy for Members of the Management Board and Supervisory Board of ENERGA SA.

In accordance with the Articles of Association, members of the Supervisory Board are entitled to a monthly salary at a rate set by the General Meeting.

In accordance with rules adopted by the General Meeting of Shareholders, the monthly remuneration of Members of the Supervisory Board is set as the product of the assessment basis referred to in Article 1(3)(11) of the Act of 9 June 2016 on the Rules of Determining Remuneration for Persons Managing Certain Companies and a multiplier of 1.5. Remuneration shall not be payable for the month in which a Member of the Supervisory Board of the Company was not present at any of the properly convened meetings of the Supervisory Board of the Company, and their absence was not justified in the manner specified by the By-laws of the Supervisory Board of the Company.

Salaries of the members of the Supervisory Board of Energa SA for 2020 are presented in the table below.

**Table 45: Salaries of members of the Supervisory Board of Energa SA in the period from 1 January to 31 December 2020 (in PLN '000)**

<b>Name</b>	<b>Period in office in 2020</b>	<b>Wages and salaries</b>	<b>Other benefits</b>	<b>Total</b>
Dybowski Jarosław	from 29 June to 31 December 2020	40.1	0	40.1
Kobyłkiewicz Sylwia	from 29 June to 31 December 2020	40.1	0	40.1
Marchewicz Marta	from 1 December to 31 December 2020	6.6	0	6.6
Powałowski Andrzej	from 1 January to 29 June 2020 roku	39.6	0	39.6
Róg Michał	from 1 December to 31 December 2020	0	0	0
Szczepaniec Marek	from 1 January to 22 April 2020	39.8	0	39.8
Szuladziński Trajan	from 19 March to 31 December 2020	62.3	0	62.3
Terlikowska – Kulesza Agnieszka	from 1 January to 31 December 2020	94.0	0	94.0
Wtulich Zbigniew	from 1 January to 29 June 2020	39.6	0	39.6
Ziemiańska-Księżak Paula	from 1 January to 31 December 2020	101.2	0	101.2
Żółtkiewicz Maciej	from 1 January to 29 June 2020	39.6	0	39.6
Żyro Agnieszka	from 29 June to 31 December 2020	40.1	0	40.1
<b>TOTAL</b>		<b>543.0</b>	<b>0</b>	<b>543.0</b>



## **Number and par value of Company shares and shares in the Company's related entities held by management and supervisory staff**

None of the members of the Management Board or Supervisory Board of Energa SA had any Company shares as at 31 December 2020.

### **10.9. Diversity policy**

Energa respects the dignity of every person regardless of race, nationality, religion, gender, education, professional position, sexual orientation, degree of disability or political affiliation, and does not accept any form of discrimination. The Company seeks to ensure diversity through the selection of diverse and professional managerial and supervisory talents. Furthermore, inspiring ideas put forward by employees encourage action, while stimulating the Company's development. This diverse human potential is a source of innovation.

Another cornerstone of diversity management at Energa involves ensuring equal access to professional development and promotions. Based on a level playing field, equal rights and obligations, the Company ensures that everyone can be fairly and fully involved in the Energa Group's fields of activity.

### **10.10. Main features of internal control and risk management systems in relation to the financial reporting process**

The Company runs an internal control system which ensures credibility and reliability of financial reporting and compliance with the laws and internal regulations. As regards preparation of financial statements, the system of internal control includes:

- control activities performed by employees in the scope of duties entrusted to them,
- functional control carried out as part of the supervision duties over reporting organizational units,
- audit of compliance of the Company's actions with the provisions of law and internal regulations.

The internal audit function is an important element of the internal control system. Internal auditing is an independent, objective activity designed to add value and improve an organisation's operations, bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. It helps an organisation accomplish its objectives, giving assurance as to the effectiveness of these processes, also through consulting.

The Company has an internal audit unit. It performs audit functions in companies of the Energa Group in line with the Energa Group's Internal Audit Policy. As part of its tasks, the unit carries out an annual Assessment of the internal control, risk management and compliance system at the Company. The purpose of this Assessment is to strengthen the internal control system by identifying good practices, while identifying areas where the system should be strengthened. The area of financial reporting is part of the annual Appraisal of the Internal Control System, risk and compliance management in Energa SA.

The purpose of an effective internal control system in financial reporting is to ensure the adequacy and accuracy of the financial information disclosed in periodic reporting. For that purpose, the Company has designed, implemented and used financial reporting process control matrices.

The area of financial reporting is part of the annual Appraisal of the Internal Control System, risk and compliance management in Energa SA, which was conducted by employees of the Audit and Internal Control Office for 2020. The assessment of the financial reporting aspects was positive.

Financial information used for financial reporting, Management Board reports and Energa's monthly management and operational reporting is derived from the Company's financial accounting system. Following the completion of all predefined end-of-month ledger closing processes, detailed management reports on finance and operations are prepared. The reports are drafted with the involvement of managers and executives from each organisational unit. For past reporting periods, the Company's financial performance is thoroughly analysed against budget estimates, and any identified deviations are properly clarified.

Both financial and management reporting of the Company and the Energa Group are based on the Accounting Policy (according to the International Financial Reporting Standards), which is updated as required and adopted for application by means of a resolution of the Company's Management Board.

The Company carries out annual reviews of strategies and economic and financial plans. Managers and executives are engaged in a detailed planning and budgeting process, which spans all areas of operation. When prepared, the economic and financial plan is adopted by the Management Board and approved by the Supervisory Board.

The selection of an auditor to audit the standalone and consolidated financial statements of the Company is the responsibility of the Supervisory Board. A statutory auditor licensed to audit the financial statements of the Company is understood as the entity defined in the Act of 11 May 2017 on Statutory Auditors, Audit Firms and Public Oversight.

The Company adopted a document entitled "Policy and procedure for the appointment of the auditor and policy of provision of additional services by the auditor, company related to the auditor and member of the network", the provisions of which meet requirements of the Act of on Statutory Auditors, Audit Firms and Public Supervision. In accordance with art. 23a of the Articles of Association, the Audit Committee recommends to the Supervisory Board a statutory auditor to perform the financial audit, while selection and change of the auditor is the responsibility of the Supervisory Board. In previous practice, the Company did not cooperate for a continuous period of more than 5 years with any statutory audit firm.

The auditor selection procedure as a whole is carried out by the Audit Committee of the Supervisory Board and it includes the definition of auditor selection criteria, carrying out the selection procedure and authorising the Management Board to enter into a contract for auditing services with the auditor of choice. The Supervisory Board awards the contract for auditing services following a procedure aimed at selecting an independent auditor and a proposal in which the quote reflects the auditor's workload, its position on the market for auditing services and understanding of the Company's industry.

Due to the entry into force of Regulation (EU) of the European Parliament and of the Council on specific requirements regarding statutory audit of public-interest entities and the amendment of the Accounting Act providing for a minimum term of two years for auditing services contracts, the Supervisory Board decided to carry out the auditor firm selection procedure for the period from 2019 to 2021. As a result of the procedure, on 29 June 2018, the Company's Supervisory Board selected statutory audit firm KPMG Audyt spółka z ograniczoną odpowiedzialnością sp.k., with registered office in Warsaw, ul. Inflancka 4A ("KPMG") as the statutory auditor to audit and review the standalone and consolidated financial statements of Energa SA and the Energa Group for annual periods ended, respectively, 31 December 2019, 31 December 2020 and 31 December 2021.

The audit report is presented to the Management Board, Audit Committee and Supervisory Board. Following the annual audit, the statutory auditor presents the Company with the 'Audit Management Letter', describing the deficiencies and irregularities which have been identified in the course of the audit but do not have any significant impact on the reliability and accuracy of the financial statements.

Risk management in the process of preparing financial statements is based on the identification and assessment of risk along with the definition of further risk response and its ongoing monitoring. As part of the Energa Group Integrated Risk Management System, financial reporting risk relating to the timely and error-free preparation of the Company's and Group's financial statements, as well as reporting and management information risk involved, for instance, in obtaining and preparation of management, operating and financial information required for management decisions, are identified and managed. The control mechanisms for the above risks include, without limitation: The Energa Group Accounting Policy, ledger accounting instructions, automatic controls embedded in IT systems, manual controls, principles of drawing up financial plans, financial and management reporting calendar or hedge accounting principles.

The risk management process, which is described in more detail in a separate chapter herein, spans all business lines and corporate levels across the Group. It assumes ongoing and regular risk reviews and reviews of action plans, as well as an independent, periodic assessment of the effectiveness and efficiency of the system and its continuous improvement.

The findings of risk identification and assessment, including reporting risks, are adopted by the Company's Management Board in the form of a resolution of the Management Board, which additionally covers the definition of the risk appetite and management strategies for individual risks, while obligating Risk Owners to implement adopted action plans. Additionally, as part of the monitoring of the effectiveness of the Energa Group risk management system, a summary risk review report is submitted to the Audit Committee of the Energa Group's Supervisory Board.



Registered office of Energa SA in Gdańsk in al. Grunwaldzka

## Management Board representation and information

## 11. MANAGEMENT BOARD REPRESENTATION AND INFORMATION

Gdańsk, 13 April 2021

The Management Board of Energa SA hereby informs and represents that:

- (1) to the best of its knowledge, the annual consolidated financial statements and reference data have been prepared in accordance with the applicable accounting policies and that they give a true, fair and clear view of the Energa Capital Group's assets, financial standing and profit/loss. Energa SA's Management Board Report on the activities of the Energa Capital Group and Energa SA gives a true view of the Group's development, achievements and condition, and includes a description of the key risks and threats;
- (2) KPMG Audyt spółka z ograniczoną odpowiedzialnością sp.k., the statutory audit firm which audited the consolidated financial statements of the Energa Group for the financial year ended 31 December 2020, was selected in accordance with the applicable regulations. The firm and the auditors who audited the aforesaid statements met the conditions for expressing an impartial and independent audit opinion in accordance with the applicable regulations and professional standards,
- (3) the selection of the audit firm for the annual financial statements was compliant with legal provisions, including those on the selection and selection procedure of audit firms, and states that:
  - a) the firm and the members of the audit team met the conditions required to issue an impartial and independent auditor's report on the annual financial statements, in accordance with the applicable provisions of law, professional standards, and principles of professional ethics,
  - b) the Group complies with the applicable legal provisions governing the rotation of audit firms and lead auditors as well as with the mandatory cooling-off periods,
  - c) the issuer has a policy in place governing the selection of audit firms and a policy on the provision of non-audit services by audit firms, their related parties or members of their service networks to the issuer, including services conditionally exempted from the prohibition on provision by audit firms.

Signatures of Energa SA Management Board Members

Jacek Goliński

President of the Management Board of Energa SA

Marek Kasicki

Vice-President of the Energa SA Management Board for Finance

Adrianna Sikorska

Vice-President of the Energa SA Management Board for Communications

Dominik Wadecki

Vice-President of the Energa SA Management Board for Operations

Iwona Waksmundzka-Olejniczak

Vice-President of the Energa SA Management Board for Corporate Matters

Magdalena Kamińska

Director of the Finance Department

## List of tables

Table 1: Implementation of the investment programme in 2020 .....	20
Table 2: Average price levels of green property rights listed on the Polish Power Exchange .....	36
Table 3: Overview of legislation having a material effect on the Group .....	37
Table 4: Overview of legislation with a potential material effect on the Group .....	38
Table 5: Consolidated statement of profit or loss (PLN m) .....	43
Table 6: EBITDA after material one-off events* (PLN m) .....	45
Table 7: Consolidated statement of financial position (PLN millions) .....	46
Table 8: Consolidated cash flow statement (PLN m) .....	48
Table 9: Financial ratios of the Energa Group .....	49
Table 10: EBITDA of the Energa Group, by Business Lines (PLN m) .....	52
Table 11: Distribution of electricity by tariff groups (GWh) .....	52
Table 12: SAIDI and SAIFI indicators .....	53
Table 13: Number of customers of Energa Operator SA in 2017-2020 (by tariff groups) .....	53
Table 14: Results of the Distribution Business Line (PLN m) .....	54
Table 15: Gross electricity production (GWh) .....	55
Table 16: Gross heat production (TJ) .....	56
Table 17: Volume and cost of consumption of key fuels .....	57
Table 18: Result of the Generation Business Line (PLN m) .....	59
Table 19: EBITDA for Generation Business Line broken down to Generation Segments (PLN m) .....	60
Table 20: Results of the Hydro Power Division (PLN m) .....	62
Table 21: Results of the Wind Power Division (PLN m) .....	62
Table 22: Results of the Ostrołęka Power Plant Division (PLN m) .....	62
Table 23: Results of the Other and Adjustments Division (PLN m) .....	63
Table 24: Sale of electricity (GWh) .....	63
Table 25: Results of the Sales Business Line (PLN m) .....	66
Table 26: Standalone statement of profit or loss (PLN m) .....	69
Table 27: Standalone statement of financial position (PLN millions) .....	70
Table 28: Standalone statement of cash flows (PLN million) .....	72
Table 29: Structure of the annual standalone statement of financial position .....	73
Table 30: Key strategic risks identified at the level of Energa and Group companies .....	77
Table 31: Key legal and regulatory risks identified at the level of Energa SA and Group companies .....	78
Table 32: Key operational risks identified at the level of Energa and Group companies .....	78
Table 33: Key financial risks identified at the level of Energa and Group companies .....	80
Table 34: Company's shares by series and type as at 31 December 2020 .....	83
Table 35: Shareholding structure of the Energa Company as at 31 December 2020 and as at the date of this Report .....	83
Table 36: Data for Energa shares as at 31 December 2020 .....	84
Table 37: Valid ratings of Energa as at 31 December 2020 .....	86
Table 38: Par value of bonds taken up by Energa and not redeemed, by issuer, as at 31 December 2020 .....	90
Table 39: Information on Energa's guarantee and surety business as at 31 December 2020 .....	90
Table 40: Main equity deposits of Energa as at 31 December 2020 .....	91
Table 41: Proceedings pending before courts, arbitration or public administration bodies .....	92
Table 42: Energa's headcount as at 31 December 2017, 2018, 2019 and 2020* .....	101
Table 43: Remuneration of the auditor for services provided to the Group ('000 PLN) .....	103

Table 44: Salaries of members of the Management Board of Energa SA in the period from 1 January to 31 December 2020 (in PLN '000).....	121
Table 45: Salaries of members of the Supervisory Board of Energa SA in the period from 1 January to 31 December 2020 (in PLN '000).....	122

## List of figures

Figure 1: Business locations and main assets of the Group.....	6
Figure 2: Number of Energa Operator SA customers as at 31 December 2017-2020 (000s).....	7
Figure 3: Structure of Energa Obrót's end customers by customer type .....	7
Figure 4: Simplified organisational chart of the Energa Group as at 31 December 2020 .....	8
Figure 5: Organisational chart of Energa as at 31 December 2020 .....	10
Figure 6: Annual changes in the GDP, domestic demand, individual consumption and investments .....	29
Figure 7: Production and consumption of electricity in Poland in 2011-2020 (TWh) .....	31
Figure 8: Power generation mix in Poland in 2011-2020 (TWh).....	31
Figure 9: Annual cross-border power exchange volumes in Poland 2011-2020 (TWh).....	32
Figure 10: Prices of energy in the SPOT market in Poland and in neighbouring countries in 2020 (PLN/MWh) .....	33
Figure 11: Prices of coal including cost of transport for coal-fired power plants at year-end in 2015-2020 (PLN/GJ) .....	33
Figure 12: Prices of the TGeBase index from 2019 to 2020 (PLN/MWh) .....	34
Figure 13: Base-load electricity futures price with delivery in 2021 .....	35
Figure 14: Prices for emission allowances (EUA DEC 2020) in 2020 .....	35
Figure 15: Comparison of prices on the balancing market and SPOT market (exchange) in 2020 (PLN/MWh).....	36
Figure 16: Prices and generating capacities constituting the operating reserve in 2020 .....	37
Figure 17: Distribution territories of top energy groups.....	40
Figure 18: Comparison of operating data for the Energa Group and the other energy groups (data from Q1 to Q3 2020).....	40
Figure 19: Factors relevant to the development of the Energa Group at least throughout 2021 .....	41
Figure 20: EBITDA bridge by Business Lines (PLN m) in 2017-2020 .....	44
Figure 21: Cash flows of the Group in 2017-2020 (PLN m).....	48
Figure 22: Structure of assets and liabilities from 2017 to 2020.....	49
Figure 23: Results of the Distribution Business Line of the Energa Group (PLN m).....	54
Figure 24: EBITDA bridge of the Distribution Business Line (PLN million) .....	55
Figure 25: Results of the Generation Business Line of the ENERGA Group (PLN m) .....	59
Figure 26: EBITDA bridge of the Generation Business Line (PLN m).....	60
Figure 27: Results of the Sales Business Line (PLN m) .....	66
Figure 28: EBITDA bridge of the Sales Business Line (PLN m).....	67
Figure 29: Structure of assets and liabilities .....	73
Figure 30: The Energa Group risk management process.....	75
Figure 31: Shareholding and voting structure at the General Meeting of Energa as at 31 December 2020 and as at the date of this Report .....	84
Figure 32: Changes in Energa stock prices compared to changes in WIG, WIG20 and WIG-ENERGIA indices in 2020 .....	85
Figure 33: Energa Group's headcount as at 31 December 2017, 2018, 2019 and 2020* .....	98
Figure 34: Structure of employment in the Energa Group in 2020 by sex, education and age .....	99
Figure 35: Employment structure at Energa SA as at 31 December 2020 .....	102



## GLOSSARY OF TERMS AND ABBREVIATIONS

AMI (Advanced Metering Infrastructure)	An integrated set of smart electricity meters, modules and communication systems enabling the collection of data on energy consumption for specified users.
Billing	A detailed receipt, a statement of all charges for value-added services used by a subscriber in a billing period.
Biomass	Solid or liquid, biodegradable substances of plant or animal origin, originating from products, waste and residues from agriculture, forestry and related industries, as well as the biodegradable fraction of other waste, in particular agricultural raw materials.
CAPEX (Capital Expenditures)	Capital expenditures.
CBRF	Centrum Badawczo-Rozwojowe im. M. Faradaya (Faraday Research and Development Centre), established for the purpose of implementation of Energa's Innovation Strategy for 2017-2020, with a perspective beyond 2025.
CO <sub>2</sub>	Carbon dioxide.
EIB (European Investment Bank)	European Investment Bank
EBITDA (Earnings before interest, taxes, depreciation and amortization)	Energa SA defines EBITDA as operating profit/loss plus depreciation/amortisation and impairment of non-financial non-current assets. Since the EBITDA definition changed in 2016, EBITDA for comparable periods (2013-2015) has been recalculated according to the new definition.
EBIT (earnings before interest and taxes)	Operating profit.
EBOR	European Bank for Reconstruction and Development
Issuer, issuer	Energa SA
EMTN	The Euro Medium Term Note (EMTN) programme
Energa SA, Energa, Energa SA	Parent company of the Energa Group.
Energa Operator, Energa Operator SA, EOP	Energa Operator SA, a subsidiary of Energa SA and the Lead Entity of the Distribution Business Line in the Energa Group.
Energa Obrót, Energa Obrót SA, EOB	Energa Obrót SA, a subsidiary of Energa SA and the Lead Entity of the Sales Business Line in the Energa Group.
Energa OZE, Energa OZE SA	Energa OZE SA, a subsidiary of Energa SA and the Lead Entity of the Generation Business Line in the Energa Group. Energa Wytwarzanie SA was renamed Energa OZE SA on 3 September 2019.
	The Euro Medium Term Notes issuance programme.
ESG	Environmental, Social, Governance
EU	The European Union.
EUR	Euro, the currency used in European Union's eurozone countries.
WSE	Giełda Papierów Wartościowych w Warszawie SA (the Warsaw Stock Exchange)
The Energa Group, the Group, Energa	A group of companies engaged in distribution, trade and generation of electricity and heat. It also conducts activity related to street lighting, design, procurement of materials, grid-related services, specialised transport, hotel and IT services.
Tariff group	Group of customers off-taking electricity or heat or using electricity or heat supply services with respect to which a single set of prices or fee rates along with their terms and conditions are applicable.
GUS	Główny Urząd Statystyczny (the Central Statistical Office).
GW	Gigawatt, unit of power in the International System of Units, 1 GW = 10 <sup>9</sup> W.
GWe	Gigawatt of electric power.
GWh	Gigawatt hour.
IRS (Interest Rate Swap)	An interest rate swap agreement between two parties, under which the parties pay interest to each other on a contractual nominal amount calculated according to a different interest rate.
KNF	Komisja Nadzoru Finansowego (the Polish Financial Supervision Authority).

**Energa SA's Management Board Report on the activities  
of the Energa Capital Group and Energa SA in 2020**

Cogeneration, CHP	An engineering process of simultaneous production of heat and electric or mechanical energy in the course of the same engineering process.
Covenants	Contract clauses used as safeguards, especially in lending agreements.
KRS	Krajowy Rejestr Sądowy (the National Court Register).
NPS	National Power System
kWh	Kilowatt hour, unit of electricity generated or used by a 1 kW device in an hour; 1 kWh = 3,600,000 J = 3.6 MJ.
MEW	Small hydro power plant.
MSP	Ministerstwo Skarbu Państwa (the Ministry of Treasury).
MW	Unit of power in the International System of Units, 1 MW = 10 <sup>6</sup> W.
MWe	Megawatt of electric power.
MWh	Megawatt hour.
MWt	Megawatt of electric power.
NBP	Narodowy Bank Polski (the National Bank of Poland), Poland's central bank.
NFOŚiGW	Narodowy Fundusz Ochrony Środowiska i Gospodarki Wodnej (the National Fund for Environmental Protection and Water Management).
NIB	Nordic Investment Bank
EGM	The Extraordinary General Meeting of Energa SA.
Renewable energy sources, RES	Sources converting the energy of wind, solar radiation, geothermal energy, waves, currents and marine tides, run of rivers and energy obtained from biomass, landfill biogas as well as biogas from sewage discharge or treatment processes or the decomposition of plant and animal remains to generate electricity.
DSO, Distribution System Operator	A utility company distributing gaseous fuels or electricity, responsible for grid operation in a gas or electricity distribution system, current and long-term operational safety of the system, operation, maintenance, repairs and the necessary expansion of the distribution network, including connections to other gas or electricity systems.
TSO, Transmission System Operator	A utility company transmitting gaseous fuels or electricity, responsible for grid operation in a gas or electricity transmission system, current and long-term operational safety of the system, operation, maintenance, repairs and the necessary expansion of the transmission network, including connections to other gas or electricity systems.
OZEX_A	Volume-weighted average price for all transactions pertaining to the PMOZE_A contract on an exchange session.
PGE	PGE Polska Grupa Energetyczna SA.
PGG	Polska Grupa Górnicza SA
GDP	Gross Domestic Product.
PLN	Polish zloty; national currency.
PMI	Forward-looking index of the Polish industry
PMOZE_A	Property rights in certificates of origin for renewable electricity generated starting from 1 March 2009, as specified in the certificate of origin.
p.p.	Percentage point.
ECP	Electricity connection point
GCP	Gas connection point
Property rights	Transferable rights constituting a commodity arising from certificates of origin for renewable energy and energy from cogeneration.
PSE	Polskie Sieci Elektroenergetyczne Spółka Akcyjna with its registered office in Warsaw, entered in the Register of Entrepreneurs of the National Court Register under KRS No. 0000197596; a company

**Energa SA's Management Board Report on the activities  
of the Energa Capital Group and Energa SA in 2020**

	designated by the President of the URE's decision No. DPE-47-58(5)/4988/2007/BT of 24 December 2007 to operate as the electricity transmission system operator in the Republic of Poland in the period from 1 January 2008 to 1 July 2014.
yoy	Year on year.
DAM	Day-Ahead Market
SAIDI (System Average Interruption Duration Index)	System Average Interruption Duration Index.
SAIFI (System Average Interruption Frequency Index)	System Average Interruption Frequency Index.
Smart Grid	An electricity system that integrates in an intelligent way the behaviours of all participants of generation, transmission, distribution and use processes in order to supply electricity in an economic, sustainable and safe manner. Comprehensive power industry solutions allowing for linking, mutual communication and optimal control of previously dispersed elements of energy networks.
SPOT	Day-Ahead Market (DAM): an energy market operating in the "day ahead" time interval (DA) supplying energy on day D.
Certificate of origin	Certificate of origin from renewable energy sources, a green certificate, and a certificate of origin from cogeneration.
Certificate of origin from cogeneration	A document issued by the President of the URE pursuant to Article 9l of the Energy Law confirming that electricity has been generated in high-efficiency cogeneration in: (i) a gas-fired cogeneration unit or a cogeneration unit with a total installed electrical capacity at source under 1 MW (known as the yellow certificate), (ii) a cogeneration unit fired by methane released and captured during deep mining operations in coal mines (open, in liquidation or closed), or gas obtained by processing biomass, (known as a purple certificate), or (iii) another cogeneration unit (known as a red certificate).
Certificate of origin from renewable energy sources, green certificate	A document issued by the President of the URE pursuant to Article 9e of the Energy Law confirming that electricity has been generated from a renewable energy source (known as a green certificate).
Tariff G	A tariff group for individual customers – households.
Polish Power Exchange, TGE	Towarowa Gielda Energii SA, a commodity exchange where admitted commodities are traded, i.e. electricity, liquid and gaseous fuels, mine gas, pollution emission allowances and property rights arising from certificates of origin, whose price depends directly or indirectly on the price of electricity, liquid or gaseous fuels and the volume of pollution emissions.
TPA (Third Party Access)	A principle under which the owner or operator makes its network infrastructure available to third parties in order to provide services to customers. In the case of electricity, this means the possibility of using the network of a local energy distributor to deliver energy purchased from any seller to the indicated location.
TWh	Terawatt hour, a multiple of the SI unit of electricity. 1 TWh equals 10 <sup>9</sup> kWh.
EU	The European Union.
URE	The Energy Regulatory Office.
WACC	Weighted average cost of capital.
WIBOR (Warsaw Interbank Offered Rate)	Warsaw Interbank Offered Rate.
Cofiring	Generation of electricity or heat using a process of simultaneous and joint combustion of biomass or biogas with other fuels in a single device; a portion of the energy generated in this manner can be deemed to be energy generated in a renewable energy source.